Instructions and Code Citations:
SAM Section 6601-6616

STATE OF CALIFORNIA — DEPARTMENT OF FINANCE
ECONOMIC AND FISCAL IMPACT STATEMENT
(REGULATIONS AND ORDERS)
STD. 399 (REV. 12/2013)

ECONOMIC IMPACT STATEMENT

DEPARTMENT NAME	CONTACT PERSON	EMAIL ADDRESS	TELEPHONE NUMBER
CA State Teachers' Retirement System	Ellen Maurizio	regulations@calstrs.com	916-414-1994
DESCRIPTIVE TITLE FROM NOTICE REGISTER OR FORM 400			NOTICE FILE NUMBER
Employer Direct Reporting			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):
  See attachment.

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.

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

- ☐ 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: ____________

Describe the types of businesses (Include nonprofits): ____________

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

4. Enter the number of businesses that will be created: ____________ 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: ____________

STATE OF CALIFORNIA — DEPARTMENT OF FINANCE

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? $ ____________

   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: ____________

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: ____________

Instructions and Code Citations:
SAM Section 6601-6616

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 through12 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: ______

   The incentive for innovation in products, materials or processes: ______

   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: ______

Instructions and Code Citations:
SAM Section 6601-6616

STATE OF CALIFORNIA — DEPARTMENT OF FINANCE

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.

See attachment for additional discussion.

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

☐ 6. Other. Explain ____________

STATE OF CALIFORNIA — DEPARTMENT OF FINANCE
ECONOMIC AND FISCAL IMPACT STATEMENT
(REGULATIONS AND ORDERS)
STD. 399 (REV. 12/2013)

Instructions and Code Citations:
SAM Section 6601-6616

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
[signature]	4/2/15

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
Anybel Batjer	4/6/2015

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

INTRODUCTION

School district employers report member and pension contribution data and remit contributions to CalSTRS using a hierarchical reporting model wherein each community college or school district reports retirement information and remits contributions to its respective county office of education. The county then compiles and submits the information and remits the contributions to CalSTRS.

Since 1999, the law has provided that the Teachers' Retirement Board may approve a district as a direct report, and CalSTRS already allows some districts to do so. The value of allowing a district to report directly lies mainly in qualitative efficiencies and does not result in significant monetary savings. This analysis assesses costs or savings that would result from the use of these specific standards.

ECONOMIC IMPACT STATEMENT

A. Estimated Private Sector Cost Impacts

☒ *h. None of the above. (Explain below.)*

These regulations lay out standards public employers must meet in order to enter voluntarily into a direct reporting relationship and only affect public employers, including K-12 and community college districts and county offices of education, and CalSTRS, a state agency.

FISCAL IMPACT STATEMENT

A. Fiscal Effect on Local Government

Fiscal impact for the current year and two subsequent fiscal years:

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

Calculations and assumptions

The standards in these regulations are permissive; any costs associated with the attainment of those standards are at the discretion of the individual employer.

B. Fiscal Effect on State Government

☒ *4. Other. Explain*

No fiscal impact exists, although these regulations do affect a state agency. Because the population of potential direct reports is small, and because these regulations provide clarification to an existing authority and process, any potential effects, as explored in detail under "Calculations and assumptions," are so minimal as to be immeasurable.

Calculations and assumptions

In 2014, CalSTRS conducted an informal readiness assessment of districts whose payroll operations are managed in-house. CalSTRS identified 59 fiscally independent or accountable districts with independent payroll systems. Based on CalSTRS-scored reporting competency and self-reported employer interest, of these 59, approximately 40 districts are potential candidates. In each of the last three years, between 10 and 15 districts have contacted CalSTRS to express an interest in direct reporting, and between one and three have actually been approved each year. CalSTRS expects these regulations, when compared to the current case-by-case processing of applications, will allow for widespread understanding of the qualification criteria in the employer community and, therefore, a lower application rate and a higher approval rate. Based on these factors, CalSTRS is anticipating no more than five districts to be admitted as direct reports each year, with that population tapering off after the first five or so years.

No additional staffing or technological improvements will be required as a result of these regulations. The technology systems and staffing in place already accommodate direct reports, and these regulations were written with the intent to absorb this workload with existing resources. The majority of time invested by staff will be on the front end, during the application approval process. To manage that workload, the regulations specify that acceptance of an application can be deferred to a future fiscal year at CalSTRS' discretion.

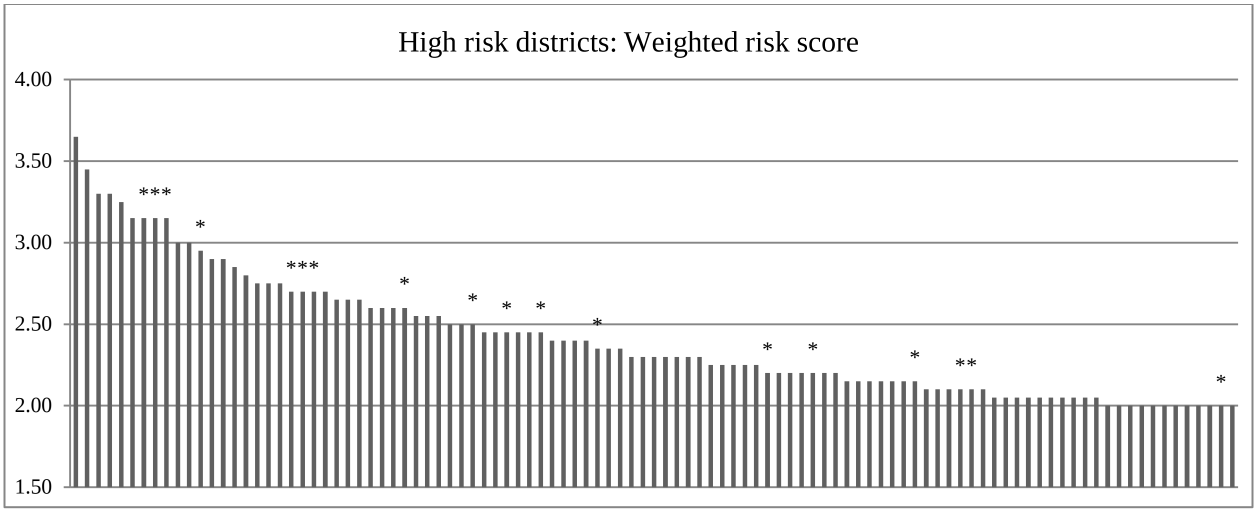
Workload considerations apply to mainly to three business functions within CalSTRS: audits, employer reporting and accounting. In addition to communication required between staff performing those functions during the application process, and monitoring good standing as it relates to continued eligibility under these regulations (for example, if a direct report is habitually late with cash or reporting), the effect on each function is described in detail in the sections that follow.

Audits

Each limited-scope audit required by the regulations will require 250 staff hours to complete, from start to finish. This is expected to be a short-term workload and would be integrated into the regular audit plan. Two partial audits would offset approximately one full audit from the annual audit plan; alternatively, staff could conduct a full audit of the direct report, offsetting a full audit from the annual audit plan. During the past six years, 32 audits on average were completed each year. In accordance with the audit plan, the majority are conducted at districts classified by CalSTRS as "high risk," with 20 percent from the "medium risk" population and 10 percent classified as "low risk." Audit Services' goal is to maintain the ratio of audits performed to employers in a given risk profile as laid out in the audit plan adopted by the board each year. Under the constraints of the audit plan, the risk profile of audits will remain stable—thus, no more than three applicants in the "low risk" category could be added to the audit plan in an average 32-audit year before reaching the 10 percent threshold.

"High risk" districts are classified as such based on the number of instances in which a district exceeds specific compensation thresholds and instances of other reporting activities; thus, large employers tend to be heavily represented. This correlates strongly to the potential direct report population, as larger employers are also more likely to have the infrastructure and staffing available to merit autonomous payroll systems and fiscal independence.

Potential direct reports represent all levels of the risk spectrum as shown in the table on the next page. While districts classified as "high risk" represent less than 10 percent of the employer population as a whole, nearly half of the 40 districts identified as potential candidates as described earlier are currently classified as high risk.



Districts denoted with an asterisk (*) are among the 40 identified by staff as likely candidates to direct report.

Audits completed in fiscal year 2013–14 averaged $79,330 in findings of errors in absolute dollars, the majority of which represent immediate and long-term savings to CalSTRS, and a small portion of which results in refunds to members and employers on overpaid contributions. CalSTRS does not anticipate that the partial (or full) audits performed pursuant to these regulations will significantly affect the average amount collected. While CalSTRS can reasonably anticipate that districts voluntarily subjecting themselves to an audit may have a low rate of findings, an audit result of "no finding" is already not uncommon (nearly one-third of audits completed in fiscal year 2013–14 had no findings).

Employer Reporting

The 12-month review described in the regulations will be absorbed by existing employer services staff currently responsible for performing case-by-case reviews of employers interested in direct reporting. It takes approximately 20 to 25 hours to review one district application to become a direct report. The time to review each application, training and periodic follow-up with approved districts would be absorbed by the existing budget and resources of the Member Account Services division.

Accounting

The Accounting division is responsible for administering employer contribution accounts and the associated reporting thereof. More employer accounts means more points of contacts to maintain, manage and report on but because the number of new direct reports is expected to be very small, any associated costs for these activities under these regulations would be immaterial.