

# STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

---

<b><u>Assembly Bill 311</u></b>	<b>Assembly Member Honda (As Amended 4/28/99)</b>
<b><u>Position:</u></b>	<b>No Position</b>
<b><u>Proponents:</u></b>	<b>CTA (sponsor), ACSA (Support, if amended), CFT, CRTA</b>
<b><u>Opponents:</u></b>	<b>None Known</b>

### SUMMARY

AB 311 revises the composition of the Teachers' Retirement Board (TRB). The bill requires five members of the TRB to be elected, at an election provided for by the TRB, by the members of the group to which they belong for 4-year terms. Depending on the constituency represented, the terms would commence on January 1, 2001 or on January 1, 2002.

### HISTORY

Similar legislation has been introduced several times in the past 11 years. Historically, the Board does not take positions on measures related to board elections and the board's composition.

AB 2768	(PER&SS, 1998)	vetoed
AB 885	(Honda, 1997)	vetoed
SB 168	(Hughes, 1996)	died
SB 277	(Hughes, 1994)	vetoed
AB 216	(Hughes, 1991)	died
AB 2642	(Elder, 1990)	vetoed
AB 3194	(Elder, 1988)	vetoed

### SUMMARY OF LATEST AMENDMENTS

April 28<sup>th</sup> amendments to the bill made clarifications to the existing language. These include:

- Clarifying references in the bill to the Defined Benefit (DB) "Program," and the Cash Balance (CB) Benefit Program to reflect changes made in legislation last year
- Providing that the K-12 and community college members be "active members" or "participants" of the System, rather than only classroom teachers.

### CURRENT PRACTICE

Under existing law, the CalSTRS Defined Benefit Program and the Cash Balance Benefit Program are administered by the 12-member Teachers' Retirement Board. Two of the 12 members of the Board must be CalSTRS members who are classroom teachers in kindergarten or

grades 1 through 12, and another member must be a retired member of the system. A fourth member must be a school board member or a community college trustee. All four of these members are appointed by the Governor for 4-year terms from a list submitted by the Superintendent of Public Instruction.

Another member of the Board is required to be a community college instructor with expertise in business or economics or both, and is appointed by the Governor for a four-year term from a list submitted by the Board of Governors of the California Community Colleges.

One member of the Board is required to be an officer of a life insurance company and one member of the Board is required to be an officer of a bank. An eighth member of the Board represents the public. The Governor appoints these members for four-year terms, subject to confirmation by the Senate. The remaining four members are on the Board by virtue of their state office.

**DISCUSSION**

AB 311 changes the distribution of board seats and how some members are selected, as follows:

**DISTRIBUTION OF BOARD SEATS**

<i>Board Member</i>	<i>Current</i>	<i>Proposed</i>
K-12	2	3*
Community College	1	1*
Retired	1	1*
School Board	1	0
Life Insurance, Bank	2	0
Public	1	3
State Office	4	4
<b>TOTAL</b>	<b>12</b>	<b>12</b>

\*Elected

Under the bill, if a member of the board ceases to hold the position that qualified the member to be appointed or elected to the board, the office would be immediately deemed vacated and the Governor would appoint a qualified person to fill the vacancy if the unexpired term is less than two years. A special election would be held if more than two years remain in the term of office. AB 311 requires the Secretary of State to certify election results and requires the TRB to reimburse the Secretary of State for their services.

Last year's board election bill, AB 2768 (Honda, 1998), was vetoed by Governor Wilson. The Governor's veto message of that legislation stated, in part:

"There is no need to substitute for the current appointments process a cumbersome election process costing the Teachers' Retirement Fund over \$150,000 a year. Proposition 162 established in the state constitution the responsibilities and priorities for STRS Board members. As such, Board members are responsible for representing the interests of the entire system, not just those of individual constituencies. Conducting elections to name parochial representatives would undermine this principle."

AB 311 allows the Board to establish a full-time position to implement the provisions of the bill. Under Proposition 162 (California Constitution Article XVI, Section 17), however, the Board has the authority to appropriate funds for staff positions without authorization in the annual Budget Act.

Supporters of previous legislation requiring board elections have argued that elected Board members would be more responsive to the System's membership. Opponents have contended that such responsiveness is not necessarily good on a Board which controls the assets and benefit levels of a retirement system.

## **FISCAL IMPACT**

Benefit Program - None.

Administrative – Following are two alternative cost estimates for conducting the elections:

1. **Conduct the elections in-house:** CalSTRS estimates administrative costs of \$423,600 per election cycle (1999-00 elect two active members; 2000-01 replace school board member with active member; 2001-2002 one community college and one retired teacher). The annual costs to implement the bill would vary from year-to-year according to the Board positions being filled. This estimate includes staff to administer the elections. Based on an estimated 335,000 active members voting in the first election and 169,300 active/retired members in the second election, total election costs would average \$243,000 per year.

2. **Contract with private sector:** CalPERS costs to contract out its last election to a private firm was \$422,000 or approximately 54 cents per voter. These costs included testing and printing ballots, printing outer envelopes, printing candidate statements, printing return envelopes, postage and counting and tabulating returned ballots for 777,000 CalPERS members. CalPERS staff also indicated that the postage cost to mail a ballot package would be estimated at the least expensive, 26 cents per piece, after postal discounts. This cost can increase to 49 cents depending on the number of candidates or the size of the package. In addition, CalPERS election included three different types of ballots for various represented members. CalPERS costs also included sending ballots to the members employers when there was no current home address available. Based on an average cost per voter of 54 cents, and assuming that CalSTRS would conduct a similar type of election, total election costs would average \$135,500 per year.

AB 311 requires the Secretary of State (SOS) to certify election results and requires the TRB to reimburse the SOS for their services. The SOS currently certifies the CalPERS Board of Administration elections. SOS staff indicated that the election results certification process required under the provisions of AB 311 is a minor administrative task which can be performed at no cost to CalSTRS.

**POSITION**

No position. Historically, the Board has not taken a position on legislation that concerns its composition.