

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

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| <u>Assembly Bill 311</u> | Assembly Member Honda (As Amended 6/24/99) |
| <u>Position:</u> | No Position |
| <u>Proponents:</u> | CTA (sponsor), ACSA, CFT, CRTA, ART, FACCC |
| <u>Opponents:</u> | None known |

SUMMARY

AB 311 revises the composition of the Teachers' Retirement Board (TRB). The bill requires six 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. Depending on the constituency represented, the terms of the elected members 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

The June 24th amendments would:

- Increase board membership by one, from 12 to 13 members
- Restore the existing appointed school board member that was deleted in a prior version of the bill
- Add one active K-12 member, for a total of four
- Require a member who has served two consecutive terms, or six consecutive years to be off the board for a year before being eligible for election
- Provide that current board terms will not be reduced as a result of this legislation
- Deleted the requirement that a special election for an appointed board member be held in the event that the term for that vacant board seat exceeds two years. Instead, the Governor would

appoint a new member to fill the appointed vacancy, regardless of the length of the remainder of the term.

- Require that the regulations adopted by the board will authorize candidates to submit statements that will not be restricted, if reasonable in their content

CURRENT PRACTICE

Under existing law, the California State Teachers' Retirement System's (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. The Governor appoints all four of these members 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 number and 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 | 4* (term begins 1/1/01) |
| Community College | 1 | 1* (term begins 1/1/02) |
| Retired | 1 | 1* (term begins 1/1/02) |
| School Board | 1 | 1 (appointed, term begins 1/1/00) |
| Life Insurance, Bank | 2 | 0 |
| Public | 1 | 2 (appointed, term begins 1/1/00) |
| State Officers | 4 | 4 |
| TOTAL | 12 | 13 |

*Elected

Under the bill, if an appointed 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 for a period sufficient only until the new appointment schedule in this bill. 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."

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.

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.

FISCAL IMPACT

Benefit Program - None.

Administrative – Although CalSTRS would be permitted to administer the election with CalSTRS staff, it appears less costly to use a private firm.

California Public Employees' Retirement System (CalPERS) costs to contract out its last election to a private firm were \$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 proposes an additional board member, increasing the current board membership from 12 to 13. For the current 12-member board, annual operating expenses are \$6,400 per member, plus about \$3,600 per member for per diem. Total costs for the additional member would be approximately \$10,000.

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.