STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS
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Assembly Bill 724   **Assembly Member Dutra (As Amended 7/2/99)**

Position: **Neutral, if amended**

Proponents: **Author**

Opponents: **None known**

SUMMARY

AB 724 enacts significant changes to existing practices and policies of state agencies regarding remediation of potential risks resulting from the "Year 2000 (Y2K) Problem". The provisions affecting CalSTRS

- allow agencies to make payments that currently are due in January 2000 in December 1999, and
- direct the State Personnel Board and Department of Personnel Administration to create a worker pool of state employees to provide assistance to other state agencies who require temporary help to address Y2K problems.

HISTORY

Information technology departments, both public and private, have been challenged by the possibility of computer failures as a result of the coming millennium. Many computer programs were written to identify only the final two digits of the year. There is a concern that many programs that run the state's vast technology systems will mis-identify the "00" in 2000 as 1900 and will be unable to function properly. CalSTRS has had a Y2K Compliance Project in place since 1996-97. CalSTRS has reported that it is Y2K compliant and participated in a Detailed Departmental Assessment administered by the Department of Information Technology (DOIT) the first week of May, 1999.

SUMMARY OF LATEST AMENDMENTS

Amendments to this bill since our analysis of the June 21, 1999 version include the following significant amendments which do not change the Board's position:

- Clarify the circumstances under which schools will observe the New Year Holiday on December 31, 1999
- Clarify a July 1, 2001 due date for state agencies to post information on agency Internet sites
- Delete provisions authorizing a pharmacist to fill a prescription for a supply of 60 days

- Exempt, through June 30, 2001, state agencies from the current requirement to provide an exact copy of a record under the Public Records Act, if it is impracticable to provide the record due to a diversion of resources in addressing the Year 2000 problem.
- Authorize the Controller to negotiate the necessity of processing of warrants, paychecks, or benefit checks in December 1999 with agencies and allow the pre-printed checks to be distributed on or after January 1, 2000.
- Appropriate $2 million from the General Fund to the Governor's Office for Y2K public awareness program.

The above provisions do not have a major impact on CalSTRS. However, the amendments attempt to alleviate potential negative tax consequences in the event January payments are processed prior to December 31, 1999.

CURRENT PRACTICE

Pursuant to existing agreements with the Department of Information Technology (DOIT), the Teachers' Retirement Board maintains control of the administration and all other CalSTRS technology projects. CalSTRS has established program procedures and policies to address the Y2K Problem. In correspondence with CalSTRS, DOIT has concurred that the ultimate responsibility for CalSTRS' Y2K readiness belongs to CalSTRS. Nonetheless, CalSTRS has voluntarily provided to DOIT periodic updates of its Y2K efforts to permit DOIT to monitor a comprehensive view of the State's Y2K status. Currently, state departments are addressing Y2K readiness on an individual basis. There is no worker pool to draw from other than private consultants approved in the Master Service Agreement list.

DISCUSSION

The bill makes the following changes which would have no significant impact on CalSTRS operations; and are not discussed further in this analysis.

1. Specifies that a computing problem or accounting failure resulting from Y2K problems can be considered "reasonable cause" for state agencies to dispute invoices submitted under the California Prompt Payment Act.
2. Assigns the Office of Emergency Services (OES) to serve as the central agency in state government for the emergency reporting of all disasters related to, or potentially related to, the Y2K Problem and to coordinate the notification of state and local agencies that may be required to respond to Y2K emergency situations as they arise.
3. Authorizes each state agency or department and political subdivision of the state to isolate any of its automated applications, computer hardware, or networking devices for nonproprietary networks, input streams, power sources, or other devices from 3:00 a.m. on December 31, 1999 to noon, January 1, 2000, inclusive if the governor or other specified official grants written authorization.

4. Permits any public entity to request information regarding the Y2K Problem from any contractor who is under contract to provide, or was at any time under contract to provide, any project, materials, supplies, equipment, property, or services to the state. Exempts for four years all responses by a contractor to an information request by a state agency from Public Records Act disclosure provisions when that contractor's response is sent within 30 calendar days to the requesting public entity

5. Permits an employee to carry over more vacation credits than the prescribed maximum if the employee is prevented from taking vacation because the employee is assigned to work related to the Y2K Problem.

AB 724 requires the State Personnel Board to develop guidelines for, and the Department of Personnel Administration to implement, a Y2K Problem worker pool that permits transfers of state employees, without penalty to the state agency or worker, for the purposes of remediating the Y2K Problem in state agencies not currently Y2K compliant. The bill exempts agencies that are not required to submit feasibility study reports (FSR) to DOIT from the worker pool provision, but only to the extent determined by SPB. CalSTRS is exempt from submitting FSR to DOIT, but because the extent of the exemption is determined by SPB, CalSTRS could still be subject to the worker pool provisions. As a result, CalSTRS programmer/analysts could be redirected to other state agencies to work on the Y2K Problem in the other agencies. In an effort to gain technical knowledge and provide assistance with development work, most programmer/analysts at CalSTRS have been assigned to work on START, which currently is scheduled to go on-line in March 2000. Assignment of CalSTRS employees to other state agencies by DOIT could cause delays and increase costs to the START project.

AB 724 also permits agencies, such as CalSTRS, to make payments in December 1999 that otherwise would be paid in January 2000. Allowing the payment of January 2000 benefits in December 1999, subject to approval by the recipient, would have a significant impact on CalSTRS' administration because it would be extremely difficult to administer and automate this policy on an individual basis. The bill allows an agency to generate the payment prior to December 31, 1999 and hold the check until its normal issue date on or after January 1, 2000, in an attempt to avoid adverse tax consequences due to early payments. Given the current status of Y2K compliance of CalSTRS, and the administrative complexity of making accelerated payments on a selective basis, CalSTRS staff would not recommend utilizing the authority provided in the bill to accelerate benefit payments.

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FISCAL IMPACT

<u>Benefit Program</u> - There are no program costs, nor savings as a result of this bill.

<u>Administrative</u> - Participation in the Y2K Worker Pool has the potential to delay implementation and increase costs of the START Project. Because the level of participation in the worker pool cannot be determined, the fiscal impact is unknown. Hourly rates charged by the contractor familiar with START begin at $120 per hour.   If CalSTRS is forced to replace reassigned programmers with private contractors, the cost will be substantial.

BOARD POSITION

Neutral, if amended to eliminate the Y2K Worker Pool provisions (Section 17.5 of the current version of the bill). This would ensure that CalSTRS is able to continue its current plan to activate the START Project in March 2000 without a threat of resources being diverted to other agencies.