

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

<u>Assembly Bill 311</u>	Assembly Member Honda (As Amended 9/9/99)
<u>Position:</u>	No Position
<u>Proponents:</u>	CTA (sponsor), ACSA, ART, CFT, CRTA, FACCC
<u>Opponents:</u>	None known

SUMMARY

AB 311 will increase the total number of Teachers' Retirement Board (Board) seats to fifteen as well as change how members for existing seats are appointed. This bill requires the three new members of the Board to be elected by active members of Defined Benefit Program or participants in the Cash Balance Benefit Program at an election provided for by California State Teachers' Retirement System (CalSTRS). The terms of the elected members would commence on January 1, 2001. The bill also specifies those retired members or participants serving on the Board on December 31, 1999 will be allowed to serve out their terms. Lastly, this bill authorizes the Governor to refill various vacancies on the Board, as specified.

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 September 9, 1999 amendments would:

- Clarify that any person serving on the board on December 31, 1999 may serve out his or her term
- AB 311 specifies that when the Governor appoints the second of the two retired members or participants, that person is deemed the successor of one of the two appointed classroom teachers in K-12 serving on the board on December 31, 1999. The bill also requires the

Governor to designate which one of the two classroom teacher members is being replaced by the retired appointee.

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, as follows:

DISTRIBUTION OF BOARD SEATS

<i>Board Member</i>	<i>Current</i>	<i>Proposed</i>
K-12	2	1
Community College	1	1
Retired	1	2 (term begins 1/1/00)
School Board	1	1 (appointed, term begins 1/1/00)
Life Insurance, Bank	2	0
Public	1	3 (appointed, confirmed by Senate)
State Officers	4	4
Elected Active Members or Participants	0	3 (term begins 1/1/01)
TOTAL	12	15*

*Teacher, retired member, and retired participant members of the board serving on December 31, 1999 may complete their terms. Teacher members may complete their terms if they remain members of CalSTRS. Any person appointed after the expiration of the term of that person might

serve until January 1, 2004. Also, school board members may be replaced immediately if the member no longer serves on a governing board. Vacancies in the member, school board, or public seats may be filled upon resignation or death of the member.

AB 311 specifies that when the Governor appoints the second of the two retired members or participants, that person is deemed the successor of one of the two appointed classroom teachers in K-12 serving on the board on December 31, 1999. The bill also requires the Governor to designate which one of the two classroom teacher members is being replaced by the retired appointee.

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 that controls the assets and benefit levels of a retirement system.

FISCAL IMPACT

Benefit Program - None.

Administrative – This bill requires the Board to contract with a private firm to conduct the elections if the Board determines that the contract would result in cost-savings to the Board.

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 an active membership of 385,000, and assuming that CalSTRS would conduct a similar type of election, total election costs would be approximately \$208,000 in fiscal year 2000-01 (the first election year) and every four years thereafter, or an average of \$52,000 per year over four years.

AB 311 proposes an additional three board members, increasing the current board membership to 15 from 12. For the current 12-member board, annual operating expenses are \$6,400 per teacher member, plus about \$3,600 per member for per diem. Total costs for the additional members would be approximately \$30,000 per year.

POSITION

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