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
CalSTRS	Ellen Maurizio	regulations@calstrs.com	916-414-1994
DESCRIPTIVE TITLE FROM NOTICE REGISTER OR FORM 400			NOTICE FILE NUMBER
Amendments to Assessment of Penalties for Late Contributions			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):

Induced effects as a result of impact to local government.

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 CA State Teachers' Retirement System (Agency/Department) estimates that the economic impact of this regulation (which includes the fiscal impact) is:

☒ 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: 0

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: 0 eliminated: 0

Explain: ________

5. Indicate the geographic extent of impacts: ☒ Statewide
☐ Local or regional (List areas): ________

6. Enter the number of jobs created: ________ and eliminated: 6

Describe the types of jobs or occupations impacted: -4.1 direct effect on education sector employment; -1.8 induced effect statewide.

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: ________

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? $ 0

   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: n/a

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.* $n/a

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: CalSTRS is a California-specific retirement system.

   Enter any additional costs to businesses and/or individuals that may be due to State - Federal differences: $ n/a

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: General benefits to the population of California in that these regulations represent widespread, though modest, savings to the state as well as savings to local governments (school employers) who remit contributions in a timely manner.

2. Are the benefits the result of: ☒ specific statutory requirements, or ☐ goals developed by the agency based on broad statutory authority?

   Explain: This penalty serves to recoup losses incurred by the fund and promote timely reporting by employers.

3. What are the total statewide benefits from this regulation over its lifetime? $ See attachment.

4. Briefly describe any expansion of businesses currently doing business within the State of California that would result from this regulation: n/a

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: See attachment.

ECONOMIC IMPACT STATEMENT (CONTINUED)

2. Summarize the total statewide costs and benefits from this regulation and each alternative considered:

Regulation: Benefit: $ See attachment Cost: $ See attachment

Alternative 1: Benefit: $ See attachment Cost: $ See attachment

Alternative 2: Benefit: $ See attachment Cost: $ See attachment

3. Briefly discuss any quantification issues that are relevant to a comparison of estimated costs and benefits for this regulation or alternatives: See attachment.

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: n/a. These amendments to regulation do not mandate the use of specific technologies or equipment or prescribe specific actions or procedures.

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 <u>Standardized Regulatory Impact Assessment (SRIA)</u> 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: __________

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).

$ See attachment.

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 Changes penalty rate in CCR 27007.

☐ 3. Annual Savings. (approximate)

$ ______________

☐ 4. No additional costs or savings. This regulation makes only technical, non-substantive or clarifying changes to current law regulations.

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

☐ 6. Other. Explain ______________

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 curren 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 Savings to the state would begin in FY 2017–18, with the advent of the board's authority to adjust the state rate up or down according to the funding needs of the plan.

C. FISCAL EFFECT ON FEDERAL FUNDING OF STATE PROGRAMS *Indicate appropriate boxes 1 through 4 and attach calculations and assumptions of fisca 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]	6/15/15

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
Anabel Batz [signature]	6/15/2015

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

Department: California State Teachers' Retirement System
Contact person: Ellen Maurizio
Email address: Regulations@CalSTRS.com
Telephone Number: (916) 414-1994

General notes regarding data and assumptions used

The estimates in this Economic and Fiscal Impact Statement are based on projections contained in the June 30, 2014, actuarial valuation, together with staff's projections and assumptions.

One key assumption is that the penalties collected in the first year of the assessment of this penalty, March 2014 through February 2015, are predictive of future rates as a percentage of projected payroll. CalSTRS' limited experience in administering this penalty, in addition to various other factors that influence employer reporting, made the production of a reliable projection challenging. Data from prior fiscal years was examined to assess whether a longer period of employer reporting behavior could be observed, but with the Employer Reporting Project which ran from 2006 to 2010—one deliverable of which was the Secure Employer Website (phased in during 2007 and 2008)—as well as employer data cleanup initiatives leading up to the Penalties and Interest regulations that became effective July 1, 2012, there were multiple factors influencing employer reporting behavior during preceding years. In a study of contribution data received during 2010–11 and 2011–12, even with multiple conservative assumptions introduced to filter down the number of affected reports, three times as much reported compensation would have been subject to the extra-late contribution penalty than was assessed March 2014 through February 2015.

Our experience has shown that the improvement of reporting systems and the assessment of penalties have a great deal of influence on employer reporting. We can reasonably speculate that raising the penalty rate will have a positive influence on employer reporting behavior. CalSTRS is continually working to improve technical and procedural mechanisms around employer reporting with the goal of improved timeliness, and a project to replace the Secure Employer Website along with CalSTRS legacy database is already underway. Thus, in staff's view, the projections in this analysis likely err toward overestimating economic and fiscal effects, but since the extent is unknown, the estimates are necessarily based on the best information that is currently available.

Economic effects for the 12 months following implementation were modeled using economic modeling software[1] with a $301,151 budget reduction to the employment and payroll sector for state and local government education employers, effective in 2016. Staff selected this sector as the vast majority of education expenditures are for classified and certificated salary and benefits. There are no offsetting benefits during the first 12 months following implementation; future savings to the state are anticipated beginning July 1, 2017, and savings to education employers as a whole would begin July 1, 2021. Detailed results are summarized on the following page.

[1] IMPLAN Group, LLC, IMPLAN System (data and software), 16740 Birkdale Commons Parkway, Suite 206, Huntersville, NC 28078, www.IMPLAN.com.

	Employment	Labor Income	Total Value Added	Output
Direct Effect	-4.1 jobs	-$296,118.00	-$326,312.50	- $343,327.00
Induced Effect	-1.8 jobs	-$98,747.00	-$172,129.20	-$291,437.30
Total Effect	-5.9 jobs	-$394,865.00	-$498,441.60	-$**634,764.30**

There were no indirect effects.

Economic Impact Statement

Section C. Estimated Benefits.

3. Total statewide benefits from this regulation over its lifetime are estimated at approximately $27 million over a 31-year period. The benefit will be directly offset by the cost to local government (school employers) who do not remit contributions timely.

As described in detail on page 1, this estimate is based on experience to date and actuarial projections as of June 30, 2014. The actual benefits of the regulation will vary.

Section D. Alternatives to the Regulation

1. *List alternatives considered and describe them below.*

Alternative 1: Hold billings or bill employers at a tentative rate beginning March 1, finalizing the rate after the state rate is adopted by the board at the actuarial valuation each April. This alternative would allow CalSTRS to collect an amount that most closely approximates the actual loss to the fund, because it **would be at the actual state appropriation rate** and **based on the actual lost state appropriation funds.**

However, staff determined this approach would impose an unacceptable burden of uncertainty on employers that might be subject to later corrections or re-billings under such a policy. This option also would be subject to administrative complexity as a result of tentative billing, rebilling, returning excess collections and managing competing rates in the administering software.

Alternative 2: Shift the effective date of the penalty. This would allow CalSTRS to assess a penalty that is the same as the state rate adopted by the board for the year relating to the service period being penalized. This would work if the penalty was assessed on a May to April cycle, rather than a March to February cycle. This would allow CalSTRS to collect at **the actual state appropriation rate**, but the amount collected **would not be based on actual lost state appropriation funds**.

This alternative would discard the key purpose of the regulations to capture late contributions that relate to creditable compensation that is not included in the last report to the state, generally produced at the beginning of April. In addition, this alternative introduces new complexity and resulting procedural and training needs that would be unduly burdensome relative to the advantages they would introduce.

Alternative 3: Increase the penalty rate, consistent with anticipated future state appropriation rates, to a flat rate higher than the one currently in place. This alternative would allow CalSTRS to collect at a rate that is **unlikely to be the actual state appropriation rate**, but **would be based on actual lost state appropriation funds**.

To most adequately fulfill the purpose of the regulation, imposing a rate that could fluctuate up or down was identified as a more desirable alternative that would provide the ability to more closely recoup the actual loss sustained as a result of late reporting and would be less likely to result in under- or over-recovery of penalties from employers relative to actual losses.

Alternative 4: Do nothing. Under this alternative, a portion of the cost of unrecouped lost state contributions would not be borne by employers who remit extra late contributions, but would instead be covered initially by the state beginning in 2017, and by employers as a whole beginning in 2021. This alternative has no cost or benefit as it does not change the regulations currently in place. The cost to the state and employers is the result of AB 1469.

2. *Summarize the total statewide costs and benefits from this regulation and each alternative considered.*

	Benefit to the state and school employers as a whole	Cost to employers who remit contributions after March 1 of the FY following the year they were due
Regulation	$27.1 million	$27.1 million
Alternative 1	$25.8 million	$25.8 million
Alternative 2	$26.2 million	$26.2 million
Alternative 3	$25.8 million	$25.8 million
Alternative 4	-	-

3. *Briefly discuss any quantification issues that are relevant to a comparison of estimated costs and benefits for this regulation or alternatives.*

In addition to the same quantification issues described under “General notes” on page 1, Alternative 3 is distinct from the other options because it provides for a flat penalty rate, rather than a fluctuating rate. Without knowing how plan funding will affect the state rate in the future, for purposes of this estimate, the other penalty rates are based on the same rate as the flat rate, which is 8.828 percent July 1, 2016, through June 30, 2046. However, in practice the rate set in the regulations and Alternatives 1 and 2 would be likely to incur different and less predictable costs and benefits than that of Alternative 3.

Fiscal Impact Statement

A. Fiscal Effect on Local Government

Additional expenditures for the current year and two subsequent fiscal years[2]:

- March 2016 through June 2016: $100,380
- 2016–17: $367,450
- 2017–18: $506,250

Savings to school employers (to the extent they do not remit late contributions) would begin July 1, 2021.

[2] Penalty year runs from March through February. Projections assume late reporting occurs at the same volume throughout the course of the penalty year.