

ITEM 17
REVISED FINAL STAFF ANALYSIS
STATEWIDE COST ESTIMATE

Education Code Sections 22455.5, Subdivision (b), 22460, 22509, Subdivision (a),
22718, Subdivision (a)(1)(A), 22724, and 22852, Subdivision (e)

Statutes 1994, Chapter 603
Statutes 1996, Chapters 383, 634 and 680
Statutes 1997, Chapter 838
Statutes 1998, Chapter 965
Statutes 1999, Chapter 939
Statutes 2000, Chapter 1021

California State Teachers' Retirement System (CalSTRS) Service Credit
02-TC-19

Santa Monica Community College District, Claimant

Executive Summary

The proposed statewide cost estimate includes seven fiscal years for a total of **\$757,770** for the *California State Teacher's Retirement System (CalSTRS) Service Credit* program. Following is a breakdown of estimated total costs per fiscal year:

Fiscal Year	Number of School District Claims Filed with SCO	Estimated Cost
2001-2002	14	\$33,715
2002-2003	16	\$39,897
2003-2004	17	\$49,800
2004-2005	17	\$85,399
2005-2006	19	\$82,233
2006-2007	26	\$88,376
2007-2008	22	\$72,433
Sub-Total	131	\$451,853
Fiscal Year	Number of Community College District Claims Filed with SCO	Estimated Cost
2001-2002	8	\$32,920
2002-2003	10	\$50,730
2003-2004	9	\$35,438
2004-2005	9	\$35,578
2005-2006	9	\$46,755
2006-2007	9	\$48,742
2007-2008	9	\$55,754
Sub-Total	63	\$305,917*
TOTAL	194*	\$757,770*

* These amounts were adjusted to reflect inadvertent errors found in the draft staff analysis. The subtotal and total were reduced by \$2,000. The total number of claims filed was increased by eight.

Summary of the Mandate

The approved test claim statutes impose reporting and notice activities on school districts, county offices of education and community college districts for administering employee retirement programs.

The Commission on State Mandates (Commission) adopted the Statement of Decision for the *California State Teachers' Retirement System (CalSTRS) Service Credit* program (02-TC-19). The Commission found that the test claim statute constitutes a new program or higher level of service and imposes a state-mandated program on local agencies within the meaning of article XIII B, section 6, of the California Constitution and Government Code section 17514.

Statewide Cost Estimate

Staff reviewed the State Controller's (SCO) report on claims filed by 23 school districts, four (4) county offices of education and 11 community college districts. The actual claims data showed that 186 claims were filed for fiscal years 2001-2002 through 2007-2008 for a total of **\$757,770**.¹ Based on this data, staff made the following assumptions and used the following methodology to develop a statewide cost estimate for this program.

Assumptions

1. *The actual amount claimed for reimbursement may increase if late or amended claims are filed.*
2. *Non-claiming school districts did not file claims because:(1) they did not incur more than \$1,000 in increased costs for this program; or (2) did not have supporting documentation to file a reimbursement claim.*
3. *For each claimant, the costs claimed will vary by fiscal year, based on:*
 - A. Actual number of:
 - CALSTRS members;
 - part-time and substitute employees eligible for CALSTRS;
 - new CALSTRS eligible employees hired;
 - retiring CALSTRS members;
 - requests from the CALSTRS Board for sick leave records of past years for audit purposes; and,
 - CALSTRS members who are re-employed after military service.
 - B. Salary levels of employees who are performing the mandated activities.
4. *There is a wide variation in costs claimed for this program. The total amount of reimbursement for this program may be lower than the statewide cost estimate, because the State Controller's Office (SCO) may reduce any reimbursement claim for this program if it is deemed to be excessive or unreasonable.*
5. *The total costs of this program may increase in future years if there are significant changes in the number of CALSTRS members retiring in 2008-09 through 2009-2010 fiscal years.*

¹ Claims data reported as of June 9, 2009.

Methodology

Fiscal Years 2001-2002 through 2007-2008

The proposed statewide cost estimate for fiscal years 2001-2002 through 2007-2008 was developed by totaling the 186 unaudited reimbursement claims filed with the SCO for these years.

The proposed statewide cost estimate includes seven fiscal years for a total of \$757,770 for the *California State Teachers' Retirement System (CalSTRS) Service Credit* program. This averages to \$108,539 annually in costs for the state for this seven-year period.

Department of Finance Comments on the Draft Staff Analysis

Commission staff issued the draft staff analysis on June 30, 2009, and the final staff analysis on July 16, 2009. The Department of Finance submitted comments on July 16, 2009, after the final staff analysis was issued. Therefore, staff is issuing a revised final staff analysis to address Finance's comments in the Executive Summary.

Department of Finance stated:

As a result of our review, Finance concludes that the wide variation in per capita costs, the significant year-over-year cost increases, and the Commission's use of unaudited claims suggest that the statewide cost estimate is likely inaccurate and incapable of estimating future costs for the state.

Staff Response to Department of Finance

Finance commented on the significant year-over-year cost increases which raised their concern regarding the accuracy of the claims.

After a program is implemented, one-time activities will not be claimed in future years unless there are new claimants or local entities required to implement the program. Thus, we expect there to be a slight reduction in costs claimed. However, it is also true that after the initial years of reimbursement, the number of claims will typically increase as claimants begin to document their costs. Here, we are reviewing the recent claiming history for only 23 school districts, four county offices of education, and 11 community college districts.

There may be explanations for the wide variation in per capita costs. However, without a desk review or field audit, we cannot explain the basis for that variation, nor can we make meaningful adjustments to the statewide cost estimate.

State law does not prohibit the Commission from basing a statewide cost estimate on unaudited claims. In fact, staff's fourth assumption states that "*[t]here is a wide variation in costs claimed for this program. The total amount of reimbursement for this program may be lower than the statewide cost estimate, because the State Controller's Office (SCO) may reduce any reimbursement claim for this program if it is deemed to be excessive or unreasonable.*"

Finance's conclusion that this estimate may be "*incapable of estimating future costs for the state*" is irrelevant to the adoption of this statewide cost estimate. This statewide cost estimate is based on claiming data resulting from initial reimbursement claims filed with the SCO for fiscal years 2001-2002 through 2007-2008. Future costs for 2008-2009 will be determined when actual claims are filed with the SCO by February 15, 2010. These future costs and any additional costs for late and amended claims are reported by the SCO to the Joint Legislative Budget Committee, applicable fiscal committees, and the Director of Finance by April 30 of each fiscal year, giving all parties to the budget process an opportunity to adjust estimates of "future costs" that are due and payable.

Staff Recommendation

Staff recommends that the Commission adopt the proposed statewide cost estimate of \$757,770 for costs incurred in complying with the *California State Teachers' Retirement System (CalSTRS) Service Credit* program.

STAFF ANALYSIS

Summary of the Mandate

The approved test claim statutes impose reporting and notice activities on school districts, county offices of education and community college districts for administering employee retirement programs.

The Commission on State Mandates (Commission) adopted the Statement of Decision for the *California State Teachers' Retirement System (CalSTRS) Service Credit* program (02-TC-19). The Commission found that the test claim statute constitutes a new program or higher level of service and imposes a state-mandated program on local agencies within the meaning of article XIII B, section 6, of the California Constitution and Government Code section 17514.

The test claim was filed on May 12, 2003. The Commission on State Mandates (Commission) adopted the Statement of Decision on April 16, 2007, and the parameters and guidelines on June 26, 2008.² Eligible claimants were required to file initial reimbursement claims with the State Controller's Office (SCO) by December 31, 2008, and must file late claims by December 31, 2009.

Reimbursable Activities

The Commission approved the following activities for reimbursement:

A. One-Time Activity

1. *Separation Notice:*

- a. Amend the notice that employers transmit to a member who terminates employment with less than five years of credited service, as part of the usual separation documents, to include the specific information specified in Education Code section 22460, subdivision (a)(1) – (3), regarding the Defined Benefit Supplement account. (Ed. Code, § 22460.)

B. Ongoing Activities

1. *Employment Notices:*

- a. Make available criteria for membership, including optional membership, in a timely manner to all persons employed to perform creditable service subject to coverage by the Defined Benefit Program, and inform part-time and substitute employees, within 30 days of the date of hire, that they may elect membership in the plan's Defined Benefit Program at any time while employed. (Ed. Code, § 22455.5, subd. (b).)
- b. Maintain written acknowledgment by the employee regarding information provided about the Defined Benefit Program in employer files on a form provided by CalSTRS. (Ed. Code, § 22455.5, subd. (b).)
- c. Within 10 working days of the date of hire of an employee who has the right to make an election pursuant to Education Code section 22508 or 22508.5, inform the employee of the right to make an election to CalSTRS or CalPERS and make available to the employee written information provided by each retirement system concerning the benefits provided under that retirement system to assist the employee in making an election. (Ed. Code, § 22509, subd. (a).)

² Exhibit A, parameters and guidelines.

2. *Sick Leave Days:*
 - a. Certify the number of unused excess sick leave days to CalSTRS for retiring members, using the method of calculation described in Education Code section 22724, subdivision (a). (Ed. Code, § 22718, subd. (a)(1)(A).)
 - b. Upon request from the CalSTRS board, submit sick leave records of past years for audit purposes. (Ed. Code, § 22724, subd. (b).)
3. *Military Service Reemployment:*
 - a. Provide information to CalSTRS regarding the reemployment of a member who is subject to federal law regarding the reemployment of military service personnel (38 U.S.C.A. § 4301 et seq.), on a form prescribed by CalSTRS, within 30 days of the date of reemployment. (Ed. Code, § 22852, subd. (e).)

Statewide Cost Estimate

Staff reviewed the claims data submitted by 23 school districts, four (4) county offices of education, and 11 community college districts, and compiled by the State Controller's Office (SCO). The actual claims data showed that 186 claims were filed for fiscal years 2001-2002 through 2007-2008 for a total of \$ **757,770**³. Based on this data, staff made the following assumptions and used the following methodology to develop a statewide cost estimate for this program.

Assumptions

1. *The actual amount claimed for reimbursement may increase if late or amended claims are filed.*

There are 973 K-12 school districts, 58 county offices of education and 71 community college districts in California. Of those, only 23 school districts, 4 county offices of education, and 11 community college districts filed reimbursement claims for this program. If other eligible claimants file reimbursement claims or late or amended claims, the amount of reimbursement claims may exceed the statewide cost estimate.

2. *Non-claiming local agencies did not file claims because: (1) they did not incur more than \$1,000 in increased costs for this program; or (2) did not have supporting documentation to file a reimbursement claim.*

More than half the claims filed by school districts were for amounts that were less than \$2,000. Many of these claims were just over the \$1,000 minimum.

3. *For each claimant, the costs claimed will vary by fiscal year, based on:*

A. Actual number of:

- CALSTRS members;
- part-time and substitute employees eligible for CALSTRS;
- new CALSTRS eligible employees hired;
- retiring CALSTRS members;
- requests from the CALSTRS Board for sick leave records of past years for audit purposes; and,
- CALSTRS members who are re-employed after military service.

³ Exhibit B, claims data reported as of June 9, 2009.

B. Salary levels of employees who are performing the mandated activities.

4. *There is a wide variation in costs claimed for this program. The total amount of reimbursement for this program may be lower than the statewide cost estimate, because the SCO may reduce any reimbursement claim for this program.*

If the SCO audits this program and deems any reimbursement claim to be excessive or unreasonable, it may be reduced.

Staff reviewed the summary claiming data for 2006-2007 fiscal year in which claims were filed by 26 school districts, four (4) county offices of education, and nine (9) community college districts.⁴ To compare the amounts claimed, staff divided the total claimed amounts by the total number of certificated employees employed by districts.⁵ The per capita cost ranged from \$.21 to \$55.81 /certificated employee for school districts and county offices of education.

- The San Diego County Superintendent of Schools claimed \$22,267 for Employment Notices; the per capita cost is \$55.81/employee.
- The Humboldt County Superintendent of Schools filed a “combined” claim which includes costs for the County Office of Education, the Arcata Elementary School District, Klamath Trinity Joint Unified School District, and the Fortuna Union High School District for \$1,262. The per capita cost for the combined claim is \$4.52.
- The Tulare County Superintendent of Schools filed a “combined” claim for \$1,688, which includes costs for the County Office of Education, Sundale Union Elementary School District and Terra Bella Union Elementary School District. The per capita cost for this claim is \$ 5.08.
- The Orange County Superintendent of Schools filed a “combined” claim for \$2,500, which includes costs for the County Department of Education, the Ocean View School District, Saddleback Valley Unified School District. The per capita cost for this claim is \$.85.

Staff also reviewed the summary claiming data for the community college districts. To compare the amounts claimed, staff divided the total claimed amounts by the total number of certificated employees.⁶ The per capita costs ranged from \$2.49 - 18.13 per certificated employee.

5. *The total costs of this program may increase in future years if there are significant increases in the number of CALSTRS members retiring in 2008-09 through 2009-2010 fiscal years.*

⁴ Exhibit B.

⁵ The certificated employee counts for school districts were obtained from EdData on the cde.ca.gov website.

⁶ The certificated employee counts for community college districts were obtained from the California Community College Chancellor’s Office report on Staffing for Fall 2006. The counts for “Educ. Admin.,” “Tenured/Tenure,” and “Academic Temporary” were totaled.

Methodology

Fiscal Years 2001-2002 through 2007-2008

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Staff Recommendation

Staff recommends that the Commission adopt the proposed statewide cost estimate of \$757,770 for costs incurred in complying with the *CalSTRS Service Credit* program.