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Information

Fiscal Policy and Planning Committee

Update on the Governor's Proposed 2014-15 Budget

Executive Summary: This agenda item provides an update on the salient points of the Commission's portion of the proposed 2014-15 Governor's Budget and provides a status report on the Commission's current-year budget.

Recommended Action: For information only

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Strategic Plan Goal

IV. Operational Effectiveness

- Align human and financial resources with Commission priorities and offer staff opportunities for development to maximize professional engagement and performance.
- Demonstrate professionalism and accountability for high standards of practice in all Commission operations.

Update on the Governor's Proposed 2014-15 Budget

Introduction
January 9, 2014, Governor Jerry Brown submitted to the Legislature his proposed spending plan for the 2014-15 fiscal year. This agenda item provides an overview of the budget proposed for the Commission on Teacher Credentialing for the 2014-15 fiscal year and provides an update on the status of the Commission's current-year budget.

Background
The state's annual budget act is arguably the most important legislation enacted each year. The budgetary and policy decisions contained in the state's annual budget act impact a range of public services from the construction, maintenance, and operation of state highways and prisons, to provision of social services, the safeguarding of our health and safety, environmental protections, and the delivery of educational services, including the licensure of educators who work in public schools.

The primary guiding budget documents for all agencies are the Budget Act (including relevant trailer bills) and the Governor's Budget, which provides the fiscal details needed to manage the appropriation. The process of developing what becomes the Governor's Budget typically begins after agencies have reported their final year end revenues/expenditures for the preceding fiscal year. Beginning each fall, agencies work with the Department of Finance (DOF) to determine a base budget and to identify, through Budget Change Proposals (BCPs), any programmatic changes proposed for the ensuing fiscal year. The Governor's Budget that is introduced each January is a reflection of each department's base budget, adjusted by proposed Governor's initiatives, budget change proposals, or legislation.

The Constitution requires the Governor, within the first 10 days of each calendar year, to submit to the Legislature a budget for the ensuing fiscal year that contains itemized statements for recommended state expenditures and estimated state revenues. The Governor's Budget must be accompanied by a budget bill that is introduced immediately in each house of the Legislature that itemizes recommended expenditures. The Legislative Analyst's Office (LAO), the Legislature's nonpartisan fiscal advisor, publishes an extensive review of the governor's budget proposal in February that helps inform the budget discussions in both houses of the Legislature. Changes in statute that are needed to implement the Budget Act are included in separate legislation colloquially known as Trailer Bills. The Administration updates its revenue estimates and makes final adjustments to its proposals in mid-May in the May Revision. The Legislature then has until June 15 to pass the budget.

The Commission's operating budget is supported by revenues generated through credential fees and fees paid by individuals who take the exams required for credentials. Approximately 78% of the Commission's operating budget is supported by credential fees, which are the primary source of revenue for the Teacher Credentials Fund (TCF), while approximately 22% is supported by educator exam fees, which fund the Test Development and Administration Account (TDAA).

Funds in this account support activities associated with the development and validation of assessments required for certification. The Commission also receives a small amount of reimbursement funds from the California Department of Education (CDE) for costs associated with payments made to county offices of education for teacher assignment reporting responsibilities required under EC §44258. The Commission receives no General Fund monies to support its operating budget.

The Commission is highly dependent on the volume of credential applications, and to a lesser extent, the volume of examinations taken by credential candidates. Historically, the Commission's revenue structure has been based on the premise that all professional educators share in the cost of the services provided by the Commission, including oversight of educator preparation programs. Even those educators who are not required to complete a Commission-approved professional preparation program, such as Early Childhood Education Permit holders, 30-day Substitute permit holders, and educators prepared outside of California share in the cost of maintaining the Commission's accountability system through their credential fees. An inherent problem with the current revenue structure is its volatility relative to the number of credential applications. Application volume can vary dramatically as a result of economic conditions and state policy. The recent recession and public policies that focused on reducing the number of underqualified individuals serving in public schools led to steep declines in the volume of credential applications. In addition to year-to-year volatility, within-year revenues are uneven. Credential volume is highest in late spring through summer and lower in the fall to early spring, which often creates temporary revenue shortfalls during the year.

The Commission has faced significant budget challenges over the past few years due to declining revenue and significant increases in operating costs. An overview of the Commission's 2013-14 budget provided at the September 2013 meeting outlined these issues in detail. (http://www.ctc.ca.gov/commission/agendas/2013-09/2013-09-3A.pdf) The September agenda item noted that declining revenues and increased costs have reduced funding available for "discretionary" expenditures, constraining the ability of the Commission to carry out mandated activities, including the suspension of accreditation site visits in 2011-12. The Commission has experienced a 25% decline in credential applications from 2007-08 to 2012-13 while experiencing nearly a 32% increase in nondiscretionary costs over that same period. Although the credential fee was increased from $55 to $70 in 2012, the revenue generated from the increase was offset by a further decline in application volume, increased nondiscretionary costs, a transfer of $2.7 million to the state's General Fund to repay a 2009 budget augmentation, and a correction of stated 2011-12 revenue of $-673,000. The declines in revenue, nondiscretionary price increases, and the fund adjustments have significantly reduced TCF reserves over the past few years from 33.4% in 2006-07 to approximately 2.1% in 2012-13.

The September 2013 agenda item noted that absent a significant (and unlikely) increase in credential volume or another means of increasing revenue, the Commission would continue to experience fiscal constraints that would limit its ability to carry out its mission. The Commission discussed the need for revenues to fully support the agency's mandated responsibilities and directed the Executive Director to work with the Administration to identify options to increase TCF revenue. Following the September Commission meeting, Dr. Sandy met with the Department of Finance to discuss options for enhancing and stabilizing TCF revenues and implemented a number of fiscal controls and procedures to help ensure the sufficiency of the agency's resources for the current fiscal year.

Governor's Budget Proposal for the Commission

The Governor's Budget proposals for the 2014 Budget Act are contained in AB 1457 (Skinner) and SB 851 (Leno). The Administration has proposed the following for the Commission:

- A total operating budget of $20,445,000. Of that amount, $15.919 million would be appropriated to the TCF and $4.218 million would be appropriated to the TDAA. The proposed operating budget for FY 2014-15 represents a net increase in expenditure authority of $640,000 over the Commission's 2013-14 budget.

- An increase in expenditure authority of $650,000 for the TCF for educator preparation program reviews to be supported by revenue generated from program review activities.

- No increase in credential fees or changes in the period of validity for credentials.

- Total authorized positions of 152.4.

Table 1 provides a comparison of the Commission's budget for the current year and the budget proposed by the Administration.

Table 1: Year to Year Comparison

	TCF	TDAA	Reimbursements	Total
2014-15	$15,919,000	$4,218,000	$ 308,000	$20,445,000[1]
2013-14	15,271,000	4,226,000	$ 308,000	$19,805,000
	$648,000	$-8,000	$ 0	$640,000

Of the $15,919,000 to be appropriated to the TCF, the budget bill allocates $850,000 for program review. Of that amount, the Governor's Budget assumes an increase in revenues of $650,000 that would come from educator preparation reviews. (The remaining $200,000 reflects cost-recovery revenue for extraordinary accreditation activities.) The proposed budget assumes that the Commission will experience little or no growth in revenue associated with credential applications and assessments.

It is important to note that the proposed increased expenditure authority is *highly contingent* on the ability of the Commission to generate revenue to support that level of spending. While year-to-date application volume is up slightly over last year, the Governor's Budget assumes 0% growth in credential revenue for FY 2014-15, and there is nothing to suggest that the growth in credential revenue that might occur would be sufficient to offset expected increases in nondiscretionary costs, much less enable the Commission to resume important activities that have been suspended or rebuild depleted reserves. The Commission anticipates increased non-discretionary costs of approximately 5%; more if revenue-based "triggers" result in a 2% salary increase for employees in 2014-15. Even with the projected $650,000 increase in revenue, it is

[1] Reflects the Budget Act appropriation of $19.544 million adjusted for increases in employee compensation, retirement rate, and Pro Rata as authorized by the 2013 Budget Act.

estimated that the TCF reserve will be 2.5% or lower in FY2014-15. Given the unlikelihood that credential revenue will be sufficient to fully support the operational needs and mission of the Commission, the Brown Administration has proposed expanding the Commission's authority to charge the sponsors of educator preparation programs for costs associated with maintaining the accountability system that ensures the integrity of those programs. Absent the ability to generate this revenue in the budget year, there will be insufficient resources to accomplish needed policy work, conduct accreditation visits, perform field investigations relating to educator misconduct, or maintain the infrastructure needed to ensure the adequacy and security of the agency's online services. Moreover, the Commission would not have the resources to ensure programs are adequately preparing aspiring and new teachers to teach the Common Core State Standards.

As part of the Budget Act process, the Administration will introduce trailer bill language to provide the Commission with authority to collect revenue to support its program review responsibilities. Commission staff will review the Trailer Bill language and develop options for the Commission to consider at its April meeting. As with the cost-recovery authority contained in the AB 86, the Education Omnibus Trailer Bill for 2013 Budget Act, the Commission will need to adopt emergency regulations to implement a program review fee policy.

Status of the Commission's current year budget

In any given year, an agency's Budget Act appropriation constitutes its expenditure authority, with certain restrictions that may be specified in the Act. Although the Commission's expenditure authority for the TCF is $15.271 million, its actual authority will be less if revenues are below $15.271 million. For that reason, the September 2013 agenda item discussed the need to closely monitor revenues and carefully manage expenditures to the revenue level. The Commission discussed the need to prioritize expenditures so that accreditation site visits could resume.

Following the September meeting, the Executive Director implemented a freeze on non-essential expenditures for the 2013-14 fiscal year and prioritized funds to align with the Commission's priorities. To ensure revenues and expenditures are closely monitored, new fiscal procedures have been implemented to provide real-time revenue and expenditure data to divisions and the Executive Office. Detailed expenditure information is updated on a weekly basis and revenue data is updated monthly and tracked against the appropriation level. In addition, the Commission's fiscal staff now actively review the accuracy of remittances that are made into the TCF and TDAA, which will help ensure errors are corrected in a timely manner and minimize adjustments to the reserves following the close of a fiscal year.

Year-to-date revenue data indicate that credential revenue appears to be stabilizing and we are cautiously optimistic that revenues will match the TCF appropriation level. Credential revenues for the first six months of FY 2013-14 were up approximately 7% over the same period last fiscal year. Expenditure data for the first six months of the fiscal year indicate that the Commission expended or obligated approximately 31% of its level of authorized expenditures for Operating Expense and Equipment (OE&E), preserving funds for the second half of the fiscal year when expenses are highest due to accreditation visits.

Notwithstanding the promising news about credential revenue, the Commission's fiscal condition remains precarious, particularly for the TCF. A recently completed reconciliation of Commission records to financial statements provided by the Department of General Services (DGS), with whom the Commission contracts for fiscal accounting, may result in a reduction of prior-year revenues that could reduce TCF reserves. Should the reduction to TCF reserves be substantial, the Commission would need to further reduce planned expenditures for the current year in order to avoid a deficiency in the fund. Staff has been working with DGS to determine the adjustment that will be necessary and will provide an update when this item is presented at the February Commission meeting.

Next steps

The Commission has experienced a continuous cycle of lower reserves and higher operational costs for the past several years. Despite the implementation of significant cost reductions and operational efficiencies, rising prices and declining revenue have impeded the ability of the Commission to carry out its statutory responsibilities. Even with careful resource management in the current year and the potential for a slight increase in credential revenue over the last few years, increases in nondiscretionary costs will continue to limit funding available for activities that help ensure the safety of California school children and the integrity of our educator preparation system. The Governor's Budget proposal provides the Commission with the opportunity to generate revenue that would reduce the need for a credential fee increase, stabilize revenue flow during the year, and rebuild its reserves. Most importantly, the proposal will maintain the ability of the Commission to carry out its mandated responsibilities and slowly rebuild reserves.

Commission staff will provide an update on the status of the current year budget at the Commission's April meeting and will report on the status of the 2014-15 Budget Act at the June meeting of the Commission. Options for the implementation of a program review fee policy will be presented at the April meeting.