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Information

Fiscal Policy and Planning Committee

Fiscal Report for FY 2009-10 and Report on the Fiscal Outlook of the Commission

Executive Summary: This agenda item provides an update on the revenues and expenditures for FY 2009-10 and an update on the fiscal outlook of the Commission.

Recommended Action: For information only

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Strategic Plan Goal: 6

Maximize the effectiveness of the agency and its staff through the optimal use of technology, ongoing staff development and maintenance of a positive work environment

- ◆ Communicate effectively to share information and increase productivity
- ◆ Conduct periodic review of the efficiency of the day-to-day operation and financial accountability of the Commission.
- ◆ Implement, monitor and report on the outcomes of new program initiatives

Fiscal Report for FY 2009-10 and Report on the Fiscal Outlook of the Commission

Introduction

At the August 2010 Commission meeting the Commissioners requested an update on the fiscal condition of the Commission. This item is intended to provide an update on the prior year FY 2009-10 actual revenue and expenditures and report on the fiscal outlook of the Commission.

Background

The Commission's operations are supported through the fees for licensure which are deposited to the Teacher Credential Fund (TCF) (0407) and fees for examinations related to licensure which are deposited to the Test Development and Administration Account (TDAA) (0408). These revenues provide funding to support the functions and services of the Commission, including but not limited to:

- **Certification, Assignment and Waivers Division:** Certification, Assignment and Waivers is the licensing division of the Commission, responsible for evaluating and processing over 250,000 applications annually for credentials, permits, certificates and waivers for authorization to serve in California's public schools. Certification, Assignment and Waivers serves as the Commission's primary point of contact, providing information to credential applicants and holders and credential personnel at the college, university, county, and school district levels regarding specific requirements for the licenses issued. It is also responsible for monitoring certificated assignments in collaboration with county and district offices of education.
- **Professional Services Division:** The Professional Services Division is responsible for the development of licensure standards for all credential areas, aligned with the adopted K-12 academic content standards; the development and implementation of licensing examinations, including the teaching performance assessment, as required in the Education Code; and the administration of state-funded programs including the Paraprofessional Teacher Training Program, the Alternative Certification/Intern Program, and in conjunction with the Department of Education, the Beginning Teacher Support and Assessment Program. The Division supports the Committee on Accreditation, a statutory body that is charged with implementing the Commission's accreditation system to monitor the quality of all educator preparation programs. The accreditation system involves educators in judgments of program quality through Biennial Reports, Program Assessment and site visit activities. Related activities include initial program approval, data collection, reporting, and policy research.
- **Professional Practices Division:** Professional Practices is responsible for both the discipline of credential applicants and holders and the legal activities of the Commission. Professional Practices supports the Committee of Credentials, a statutory body that is responsible for conducting investigations of charges of misconduct against a credential holder or applicant upon initial application for a credential, when a credential is renewed, or when there are allegations against a credential holder relating to criminal activity,

unprofessional conduct or misconduct that would impact the status of a license. The professional practices legal staff provides legal counsel and advice to the Commission, the Committee of Credentials and program divisions within the Commission.

- **Administration:** Supports the programs and operations of the Commission by providing leadership, technical expertise and services in the areas of personnel, governmental relations, financial management, business and facility operations, contract administration and information technology.

In the 1980's the Legislative Analyst recommended that credential renewal fees be equalized (reducing the initial fee) and established the policy that all teachers support, through initial and renewal applications, the licensing, discipline, preparation standards setting and institutional accreditation functions of the profession. The current revenue structure reflects this policy as adopted by the Legislature and the Administration and is consistent with that of all regulatory departments in the state: those who receive the benefit of their services pay to provide those services. The inherent problem with this revenue structure is its volatility relative to application volumes.

As a result of the current State's economic crisis and lay-offs throughout California the Commission has seen a decrease in the application volumes over the last couple years. In 2009-10, the Commission experienced the largest one-year drop in TCF revenues of 9 percent. Based in current trends for FY 2010-11 there is an approximate 6 percent decrease from this same time last year. It is uncertain if FY 2010-11 will continue to decline or level off, as a result the projections for the TCF are very conservative. There has also been a decrease in enrollment for Teacher Preparation programs and as a result the number of examinations being administered is expected to drop in 2010-11. This decline is consistent with the decline in program enrollment reported in the 2008-09 Title II report presented at the September/October 2010 Commission meeting. Although the decline in revenues does have an impact on the funds, there is not an immediate need to make adjustments in either the revenues or expenditures for either fund.

The chart below outlines the actual revenues and expenditures for FY 2009-10 and estimated revenues and expenditures for FY 2010-11, 2011-12 and 2012-13. It is important to note that this is the worst case scenario for both funds based on the projections. This scenario is constantly changing as a result of prior year adjustments and current year actual revenues and expenditures.

Dollars in Thousands	2009-10 ^{1/}	2010-11	2011-10	2012-13
TCF	(Actuals)	(Estimated)	(Estimated)	(Estimated)
Beginning Balance	5,869	5,112	3,460	1,017
Revenues	12,932	12,848	12,800	12,800
Expenditures	-13,689	-14,500	-15,243	-15,243
Fund Balance	5,112	3,460	1,017	-1,416
TDAA				
Beginning Balance	3,709	3,876	3,260	2,702
Revenues	4,671	4,263	4,255	4,255
Expenditures	-4,504	-4,879	-4,813	-4,729
Fund Balance	3,876	3,260	2,702	2,228

^{1/} Based on the Fund Balances, in FY 2009-10 the Commission returned the \$2.7 General Fund loan provided in FY 2005-06.

Teacher Credentials Fund (0407)

In FY 2009-10 the Commission experienced a 9 percent decrease in total revenues in the TCF from FY 2008-09. This is the largest decline in revenues since 2000-01. It is unknown to what extent this decline will continue, but based on applications received to date there is a 6 percent decline from the same time this last year. If the 6 percent decrease holds throughout the fiscal year this would be an overall decrease of TCF revenues of 15 percent from the prior year FY 2008-09. FY 2010-11, 2011-12 and 2012-13 reflects zero growth in revenues from FY 2009-10 as a result of the unknown future of credential application processing. On a regular basis Commission staff updates these projections based on current information.

In FY 2009-10 the Commission returned \$527,346 in unexpended funds to the fund balance. The unexpended funds were the result of the salary savings associated with the furloughs and staff vacancies. The return of unexpended funds assists with the stability of the fund as we progress into the future.

The authorized expenditure levels are budgeted at these levels based on approved staffing levels, benefits, and operating expenses and equipment for the positions. In addition, there have been approved budget change proposals over the years for various responsibilities outlined in the Education Code. This is the maximum amount authorized to spend. However over the last several years the Commission has not fully expended the appropriation and as a result returned unexpended funds to the fund balance.

Test Development and Administrative Account (0408)

In FY 2009-10, the TDAA revenues were just above those revenues reported for FY 2008-09. However, FY 2010-11 reflects an 8 percent decrease in TDAA revenues from FY 2009-10 and zero growth for FY 2010-11, 2011-12 and 2012-13 as a result of the decline in program enrollment. On a regular basis Commission staff updates these projections based on current information.

In FY 2009-10 the Commission returned \$867,965 in unexpended funds to the fund balance. The unexpended funds were the result of the salary savings associated with the furloughs and staff vacancies. The return of unexpended funds assists with the stability of the fund as we progress into the future.

Similar to the TCF, the TDAA authorized expenditure levels are budgeted based on approved staffing levels, benefits, and operating expenses and equipment for the positions. In addition, there have been approved budget change proposals over the years for various responsibilities outlined in the Education Code. This is the maximum amount authorized to spend. However over the last several years the Commission has not fully expended the appropriation and as a result returned unexpended funds to the fund balance.

Credential Fee/Revenue History

Revenues in the TCF grew considerably as a result of the implementation of CSR in 1996 as CSR caused an immediate need for additional teachers and a corresponding increase in applications and thus, revenues. In 1998 the credential fee was reduced from \$70 to \$60 to ensure that the TCF balance did not grow beyond an acceptable level of reserve as established or required by statute. In reality, in FY 1998-99, the decreased credential fee, combined with increased expenditures, as approved by the Legislature and the Administration, resulted in the initial decline in the TCF fund balance, a condition that continues to the present.

During budget hearings on the FY 2000-01 budget the Administration recommended, and the Legislature approved, an additional reduction of the credential fee from \$60 to \$55 that took effect in July 2000. In addition, provisional language was added to the Annual Budget Act that sets the fee at \$55. It is important to note that beginning with FY 2000-01, growth in credential applications slowed significantly.

Thus, since FY 1998-99 the Commission has been operating within a revenue structure whereby expenditures exceed revenues. At the time the credential fee was reduced from \$60 to \$55, the TCF Fund had a fund balance of approximately \$5.7 million. General Fund revenues were plentiful and the Commission's new Teacher Credential Service Improvement Project (TCSIP) was funded from an appropriation from the General Fund. Unfortunately, decreasing availability of General Fund dollars resulted in the shift to the TCF and TDAA for various projects. Although, there were sufficient reserves at that time to cover these shifts there was the declining revenues occurring at the same time.

In FY 2005-06 there was an anticipated shortfall in both the TCF and TDAA and as a result the budget included expenditure reductions of \$2.9 million as well as a General Fund back-fill of \$2.7 million. Over the last several years, the Commission has returned unexpended funds to the fund balance that allowed for the \$2.7 million General Fund back-fill to be repaid.

This shift in appropriation, coupled with a decrease in applications that are renewed annually, has resulted in the current situation of the decrease in the TCF fund balance. Given the current state of the economy Commission staff expects that the TCF revenues will continue to decline but it is uncertain how much more. Commission staff will continue to work with the Administration to determine the best solution to address the issue when it is deemed appropriate.

Examination Fee/Revenue History

In operating the Commission examination programs, the Commission bears costs in two major categories: contracted costs and non-contracted costs. (It is important to note that in FY 2005-06 the contracted costs were transitioned to what is known as "revenue only" contracts and as a result of this transition the costs are retained by the vendor when the fee is paid by the candidate.) Education Code sections 44252.5, 44253.8, and 44298 require that costs be covered through the fee examinees pay for administration of each examination. The fees include (a) a fee that registrants pay for each examination to cover the costs of administering the examination and that is retained by the contractor, and (b) a program management fee that registrants pay to cover the Commission's costs for operating the California examination programs.

The contracted costs category is the largest and covers the test administration and/or development work performed by the contractor for each of these examination programs. As specified in the contract, the contractor retains a fee per test administered that is based upon the total number of tests administered each year. The non-contracted costs include staff time for managing the examination programs, which include monitoring the contracts and completing other Commission administrative responsibilities related to the examination programs.

To determine fees for these testing programs, Commission staff projects examinee volumes for each program based on a weighted average from past year actuals and compares this with the proposed non-contracted Commission costs for the testing year. It is important to note that a testing year is aligned with the fiscal year and runs from July–June. From these projections

Commission staff identifies a fee that is appropriate and necessary to ensure the program is self supporting, as well as leaves a healthy reserve within the Test Development and Administration Account, in which the fees are deposited at the State level. The fees were last adjusted in the 2007-08 testing year to cover the operating costs proposed during that fiscal year.

The Commission staff generally presents to the Commission, in the Spring, for discussion and action the proposed examination fee structure if changes are required. Education Code section 44235.1 provides the authority for the Commission to review and approve the examination fee structure, as needed, to ensure the current California examination program is self supporting. There are two purposes for bringing this issue to the Commission for review and approval: 1) the Commission staff has to work with the vendor to prepare the registration bulletins for the next testing year; and 2) the Commission staff is required to update of the TDAA Fund Condition for discussion purposes with the Administration and the Legislature. If there are approved changes, by the Commission, these need to be incorporated and distributed accordingly.

Next Steps

Commission staff will continue to monitor both funds to ensure that there are sufficient resources to support the ongoing costs of the Commission. Commission staff will update the Commission as new information becomes available.