
3B

Information

Fiscal Policy and Planning Committee

Update on the Proposed 2012-13 Governor's Budget

Executive Summary: This agenda item provides the salient points of the Commission's portion of the proposed 2012-13 Governor's Budget, as well as an analysis of the impact for the Commission's operations.

Policy Question:

What are the Commission's policy and workload implications of the Governor's proposed 2012-13 budget?

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

Update on the Proposed 2012-13 Governor's Budget

Introduction

On January 5, 2012, Governor Jerry Brown submitted to the Legislature his proposed budget for Fiscal Year (FY) 2012-13. At the January 2012 Commission meeting, staff provided an update on the salient points of the Commission on Teacher Credentialing's (Commission) portion of the proposed FY 2012-13 Governor's Budget. Since the January 2012 Commission meeting, staff has met with Legislative members and their staff from both the Senate and Assembly Education budget subcommittees to discuss the Commission's budget as presented in the Governor's Budget. Spring budget subcommittee hearings are being scheduled in both houses, and staff will have an opportunity to discuss the Governor's proposal and the impact to the Commission's operations. This agenda item allows the Commission the opportunity to discuss the impacts and provide direction to staff, as appropriate.

Background

In September of each year, departments, including the Commission, must submit a budget to the Department of Finance for the upcoming FY to start the budget development process. Each department starts with a base budget, which can be adjusted by approved budget change proposals, legislation, employee compensation adjustments, retirement adjustments, expiring programs, etc. In January the Governor releases the proposed budget for the upcoming FY. This starts the discussion with the Legislature leading to a May Revision of the proposed budget issued by the Governor, and a final budget approved by the Legislature by June 15 and presented to the Governor for approval. By statute, an approved budget should be signed by the Governor by June 30th with an effective date of July 1st, though this deadline is not always met.

The Commission is referred to as a "special fund" agency because the daily operations of the agency are supported by two special funds (1) Teacher Credentials Fund and (2) Test Development and Administration Account. The Commission does not receive a General Fund allocation to support its operations. The support comes from the fees collected as the result of issuing credentials and administering the various educator preparation examinations for candidates. The credentials fees are deposited into the (0407) Teacher Credentials Fund (TCF) and the teacher preparation examination fees are deposited into the (0408) Test Development and Administration Account (TDAA).

Currently, approximately 76% of the Commission's \$20.2 million 2011-12 operating budget is supported by credential fees, which are the revenue source for the TCF. (The credential fee, established annually in the Budget Act, has fallen below the statutory limit of \$70 at the direction of the Administration and the Legislature since 1998 and has been at \$55 since 2000.) The remaining 24% is supported by educator exam fees, which fund the TDAA. The Commission receives \$26.2 million in General Fund Proposition 98 (local assistance) funds that are passed through to Local Education Agencies to support teacher development programs. The Commission receives no General Fund allocations for this financial service and no General Fund allocations to administer the programs.

Provided below is a summary of Education Code sections 44234 – 44235.3 which outline the fee structure for the Commission. It is important to note that these code sections reflect historical

evolution of the Commission's fees and mirror public policy priorities and pressures in any given budget year. For example, in the Budget Act of 2000 Provisional Language was added to the annual budget that sets the Credential Fee at \$55 which supersedes Education Code Section 44235, which allows the Commission to set the credential fee as high as \$70 without legislative approval. This Provisional Language in the Budget Act has been incorporated into every subsequent Budget Act, thus the Credential Fee has remained at \$55. The Governor's proposed budget for 2012-13 restores the credential fee to \$70.

Annually, Commission staff review the projected revenues in either fund to determine if a credential or examinations fee change is necessary. In January 2011, the Commission reviewed and approved a fee structure change for the TDAA account that was implemented for the FY 2011-12 testing year. At this meeting, the Commission will consider the fee structure for the FY 2012-13 testing year.

Statutory Guidance

As noted above current law requires the Commission to levy fees for the issuance and renewal of teaching and service credentials and specifies that in no case shall a fee exceed seventy dollars (\$70) without express legislative approval. (Education Code §44235)

Under current law, the Commission may establish and collect fees to recover its costs for the development and administration of any subject matter examination adopted by the Commission, unless the costs are recovered by appropriations from another source of funds. (EC §44235.3)

Current law also requires, as part of the annual budget review process, the Department of Finance to recommend to the Legislature an appropriate credential fee sufficient to generate revenues necessary to support the operating budget of the Commission plus a prudent reserve of not less than 10%. Current law specifies that reserve shall not exceed 10%, as determined by the Department of Finance pursuant to subdivision (b) of Section 44234. (EC §44234 and §44235)

On November 3, 2011 the Commission adopted the following principles to guide the budget development for FY 2012-13:

1. Maintain the core essential functions of the agency with no additional reductions.
2. Establish a credential fee that ensures the fiscal solvency of the agency, not to exceed \$100.
3. Minimize the fiscal impact to first time teachers.
4. Assess the viability of charging late fees for expired credential documents and charging teacher preparation programs sponsors for accreditation responsibilities above the traditional accreditation system activities.
5. Minimize the fiscal impact to new educators, taking required exams, by having the credential fees subsidize partially the examination system expenses.

Provided on the next page is the most current Fund Condition (as of February 22, 2012) for the Teacher Credentials Fund and the Test Development and Administration Account. The Fund Conditions reflect updated projections and includes the policy proposals as presented in the FY 2012-13 Governor's Budget. Based on the second quarter data for the Teacher Credentials Fund the current year projection has been updated from a 6% decrease to a 5% decrease in credential revenues.

FUND CONDITION SUMMARY
(As of February 22, 2012)

TEACHER CREDENTIALS FUND

| | 2010-11 (Actual) | 2011-12 ^{2/3/} (Estimated) | 2012-13 ^{2/3/} (Proposed) | 2013-14 ^{2/3/} (Proposed) |
|--|---------------------|--|---------------------------------------|---------------------------------------|
| Beginning Balance | \$3,380,000 | \$1,347,000 | \$281,000 | \$15,000 |
| Revenues | 12,344,000 | 11,724,000 | 14,404,000 | 14,404,000 |
| TDAA Transfer | 0 | 2,300,000 | 0 | 0 |
| Expenditures/ Appropriation | -14,377,000 | -15,090,000 | -14,670,000 | -14,670,000 |
| Ending Balance | <u>\$1,347,000</u> | <u>\$281,000</u> | <u>\$15,000</u> | <u>-\$251,000^{1/}</u> |
| Reserve % | 9.4% | 1.9% | 0.1% | -1.7% |

^{1/} This assumes the Commission fully expends all resources each fiscal year. Historically, this has not occurred.

^{2/} Assumes a 5% decrease in credential revenue from FY 2010-11, based on 2nd quarter data from Certification, Assignment and Waivers Division. FY 2012-13 assumes a 3% decrease in credential revenue from FY 2011-12.

^{3/} FY 2011-12 reflects a Credential Fee (Renewals) of \$55 and First Time Credential and Certificate of Clearance at \$27.50. FY 2012-13 reflects a Credential Fee of \$70 and First Time Credential and Certificate of Clearance at \$35.00.

TEST DEVELOPMENT AND ADMINISTRATION ACCOUNT

| | 2010-11 (Actual) | 2011-12 (Estimated) | 2012-13 ^{1/} (Proposed) | 2013-14 ^{1/} (Proposed) |
|--|---------------------|------------------------|-------------------------------------|-------------------------------------|
| Beginning Balance | \$5,270,000 | \$4,705,000 | \$1,941,000 | \$1,939,000 |
| Revenues | 4,245,000 | 4,211,000 | 4,211,000 | 4,211,000 |
| TCF Transfer | 0 | -2,300,000 | 0 | 0 |
| Expenditures/ Appropriation | -4,810,000 | -4,675,000 | -4,213,000 | -4,213,000 |
| Ending Balance | <u>\$4,705,000</u> | <u>\$1,941,000</u> | <u>\$1,939,000</u> | <u>\$1,937,000</u> |
| Reserve % | 97.8% | 41.5% | 46.0% | 46.0% |

^{1/} This reflects an increase of \$500,000 in TDAA examination revenues that is proposed in the 2012-13 Governor's Budget.

The Governor's Budget includes various policy decisions that align with some of the Commission's adopted guiding budget development principles. Since the budget was released in January 2012, Commission staff has had an opportunity to work with the Administration and analyze the proposals to determine the impact, if any, on the Commission's operations. Provided below is a staff analysis of the impact of the proposed budget.

- The Budget proposes to increase the teacher credentialing fee in 2012-13 by \$15 from \$55 to \$70 to generate \$3 million in additional revenue for the Teacher Credentials Fund. The additional revenue is necessary to partially address the Commission's 2012-13 operating deficit of \$5 million.
 - **Impact:** *The Administration proposes to restore the fee to from \$55 to \$70, using the existing funding model of 1/2 Fee for Certificate of Credential and First Time Credentials and full fee for renewals. Based on the current projections this funding model leaves minimal flexibility for adjustments in the revenue projections or expenditures. As a result, this option has a corresponding reduction of \$1.5 million in operations in order to balance the Commission's budget.*

If the funding model was re-considered this could minimize the impact the proposed reductions could have on the core functions of the agency and the existing credentialing system. It is important to note that every \$5.00 increase in credential revenue generates approximately a million dollars in additional revenues. During fall 2011, Commission staff ran various fiscal scenarios that aligned with the Commission's adopted principles and are possible options for consideration in making a final decision on this issue. The intent of the proposal is to determine a possible long-range solution. Based on the current projections, this proposal reflects a new deficit in FY 2013-14, which re-opens the discussion about a new fee structure/expenditure reductions during the next budget development cycle.

- The Budget proposes to increase testing fees in 2012-13 by five (5) percent to generate \$500,000 of additional revenue for the Test Development and Administration Account. The additional revenue is necessary to partially address the Commission's 2012-13 operating deficit of \$5 million.
 - **Impact:** *In an effort to ensure fiscal stability within the Test Development and Administration Account, the 2012-13 Governor's Budget includes an increase of \$500,000 in educator examination revenues. This proposal allows for a very healthy fund reserve. In addition, it does ensure that both revenues and expenditures are aligned. This increase is based on the projections provided to the Administration during the fall of 2011. In FPPC 3A (March 2012) of this agenda, Commission staff propose a fee increase that keeps the Commission's guiding budgetary development principles in mind. This item is being brought before the Commission because the Commission has the authority to adjust the examination fees as necessary to ensure fiscal solvency. It is important to note that the fees paid to the contractor for administering the various educator examinations is not proposed to change, because these fees are currently set as part of a multi-year competitively-bid contract.*

- The Budget proposes to decrease state operations by \$1.5 million in 2012-13 as a result of eliminating 13 vacant positions and eliminating four additional positions to reflect operational efficiencies generated by streamlining the teacher preparation and credentialing processes, and achieving operational savings from reduced information technology costs. The proposed budget language directs the Commission to work with the State Board of Education to identify ways to streamline the teacher preparation and credentialing processes. These staffing changes reflect a proposed reduction of 7 Positions in the Certification, Assignment, and Waivers Division, 9 positions in the Professional Services Division, and 1 position in the Administration Division.
 - **Impact:** *The Governor's Budget proposes a reduction of 17 positions (10 percent reduction) in the Commission's workforce. The impact of this reduction is significant and jeopardizes the Commission's ability to sustain several core functions. It is important to note that the Commission's operations have no impact on the State's General Fund. The Commission is 100% fee supported and is subject to the volatility of educator supply and demand. A severe reduction in the operations will make it impossible for the Commission to maintain all existing operations or take on any new work.*

A more detailed analysis of the impact of these proposed staff will be included as an Agenda Insert at the meeting.

- The Budget proposes to provide a \$2.3 million loan in 2011-12 from the Test Development and Administration Account to the Teacher Credentials Fund to address the Commission's state operations shortfall.
 - **Update:** *In February 2012, the Commission submitted the loan request to the Department of Finance for consideration and it is currently under review. Once approved, it will be forwarded to the Joint Legislative Budget Committee (Committee) for final consideration. Once received, the Committee has thirty (30) days to review the request and either approve/deny the request. In the event the request is denied, the Commission will need to suspend \$2.3 million in current year activities. During the various meetings with the Legislative members, Commission staff has discussed the need for the loan and the implications if not approved.*

Next Steps

Discuss the impact of the proposed Governor's Budget and provide guidance as staff prepares for the Spring Legislative hearings. Staff will continue to provide updates as they occur.