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Action

Fiscal Policy and Planning Committee

Commission on Teacher Credentialing Budget

Executive Summary: This agenda item provides an overview of the Commission's budget for the 2013-14 fiscal year, reviews the fiscal constraints that are projected to impact the operations of the agency, and presents options for improving the long-range fiscal outlook for the Commission on Teacher Credentialing.

Recommended Action: Staff recommends that the Commission direct the Executive Director to: 1) monitor Commission expenditures and to submit a letter to the Department of Finance requesting the transfer from the Test Development and Administration Account reserves to the Teacher Credentials Fund; 2) submit a Budget Change Proposal for the 2014-15 fiscal year for an appropriate credential fee sufficient to generate revenues necessary to support the operating budget of the Commission ; and 3) report options for stabilizing the Teacher Credential Fund to the budget committees of each house of the Legislature, the Legislative Analyst's Office, and the Department of Finance on or before November 1, 2013 as required by law.

Presenter: Beth Graybill, Chief Deputy Director, Executive Office

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.

Commission on Teacher Credentialing Budget

Introduction

This agenda item provides an overview of the Commission's budget for the 2013-14 fiscal year, reviews fiscal constraints that are projected to impact the operations of the agency, and presents some options for improving the long-range fiscal outlook for the Commission on Teacher Credentialing.

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 establish the state's spending priorities and 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 Constitution requires the Governor to submit a budget for the ensuing fiscal year within the first 10 days of each calendar year and prescribes that the budget shall be accompanied by a budget bill introduced in each house of the Legislature itemizing the 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 and it is this analysis that becomes the starting point for discussion in both houses of the Legislature. The Legislature has until June 15 to pass the budget.

The process of developing what becomes the Governor's Budget actually begins in the fall of each year 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 make base budget decisions and identify any potential programmatic changes through Budget Change Proposals (BCPs) that will be included in the Governor's Budget introduced each January. Thus, 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 2013 California Budget Act (AB 110, Blumenfield, Chap. 20, Stats. 2013) was signed by Governor Jerry Brown on June 27, 2013. The annual Budget Act makes appropriations for the support of the government of the State of California, including the Commission on Teacher Credentialing. A companion trailer bill, AB 86 (Committee on Budget, Chap. 48, Stats. 2013) provides statutory changes needed to fully implement the Budget Act.

Commission 2013-14 Budget

The Budget Act provides the Commission with a total appropriation of \$19.544 million for the support of the Commission for the 2013-14 fiscal year, which began on July 1, 2013 and ends on June 30, 2014. Of that amount, the Act appropriates \$15.067 million from the Teacher Credentials Fund (TCF) and \$4.169 million from the Test Development and Administration Account (TDAA). The Commission has 152.4 staff positions authorized for the 2013-14 fiscal year.

The Act also provides \$308,000 to reimburse county offices of education for teacher misassignment monitoring. (All of these monies are dispersed to the county offices of education and none are used by the Commission.) This year's budget provides the Commission with authority to recover costs associated with extraordinary accreditation workload and document review activities and assumes \$200,000 in revenue from cost recovery. In concert with the restructuring of school finance through the Local Control Funding Formula, the Commission receives no local assistance funding for alternative certification (Intern) programs and the Paraprofessional Teacher Training Program.

Approximately 77% of the Commission's \$19.5 million operating budget is supported by credential fees, which are the primary revenue source for the TCF. (Beginning in the 2013-14 fiscal year, up to \$200,000 of this fund's revenue will come from cost-recovery fees associated with extraordinary accreditation activities.) A little more than 21% of the Commission's budget is supported by educator exam fees, which fund the TDAA, and approximately 1.6% comes from the reimbursement funds that pass to county offices of education. The Commission receives no General Fund monies to support its operating budget.

Table 1: Budget Act Appropriation

2013-14	TCF	TDAA	Reimbursement	Total
	\$15,067,000	\$4,169,000	\$ 308,000	\$19,544,000
% of Total	77.09%	21.33%	1.58%	

The 2013 Budget Act includes provisional language to ensure the management of the Commission's two funds appropriated. Specifically, this language:

- Authorizes the Commission to request an increase in its expenditure authority based on increases in credential applications, increases in first-time credential applicants requiring fingerprint clearance, unanticipated costs associated with certification discipline cases, or unanticipated costs of litigation.
- Authorizes the Commission to obtain a loan from the TDAA if there are insufficient funds in the TCF.
- Requires the Commission to submit biannual reports on workload associated with its credential and discipline functions.
- Requires the Commission to develop additional options for stabilizing the TCF and report these options to the Legislature by November 1, 2013.

- Prohibits the Commission from charging more than \$70 for the issuance or renewal of a teaching credential without express legislative approval.¹

Governor’s Budget Expenditure Authority

The Commission’s Operating Expense & Equipment (OE&E) expenditure authority is the difference between the Budget Act appropriation and its Personal Services Costs (employee salaries and benefits). Of the Commission’s \$19.5 million appropriation for 2013-14, the Governor’s Budget allocates \$13.79 million to Personal Services and \$5.754 million for OE&E. Of that amount, approximately \$5.014 million will go to nondiscretionary operational costs that are largely outside the control of the Commission including central administrative services (the Commission’s Pro Rata share of the state’s overhead expenses), facility operations, communications, data processing services and information technology, state agency services, and costs associated with the appeal of discipline reviews handled by the state Attorney General’s Office. Generally speaking, Personal Services and nondiscretionary OE&E constitute about 96% of the Commission’s budget.

The remaining funds, (approximately \$740,000) are available for agency operations and implementing statutory mandates such as accreditation visits, the development and adoption of standards for credential preparation programs, disciplinary investigations, and meetings of the Commission, the Committee of Credentials and the Committee on Accreditation. For budget purposes, these costs are often referred to as “discretionary” OE&E. Although these activities are not considered discretionary, the Commission has somewhat greater ability to manage costs for some these activities than it does nondiscretionary costs by deciding when and how often they occur.

Table 2: Governor’s Budget Expenditure Authority

2013-14	Operations	Nondiscretionary	Total Appropriation
Salaries & Wages		\$13,790,000	\$13,790,000
OE&E	\$ 740,000	\$ 5,013,940	\$ 5,754,000
Total	\$ 740,000	\$18,803,940	\$19,544,000
% of Total	3.8%	96.2%	

Resources

The Commission’s total resources include the reserves in both funds and the revenue generated through credential fees and fees paid by individuals who take the exams required for certification. The budget recommended by the Governor each January is based on each fund’s projected revenues for the upcoming fiscal year and its reserves. When it was released in January, the Governor’s Budget assumed revenues in the TCF of \$14.711 million from credential fees and \$200,000 from cost recovery. The Governor’s Budget also assumed revenues of \$4.699 million for the TDAA.

¹ Education Code § 44235 requires the Commission to levy fees for the issuance and renewal of teaching and service credentials and prohibits the credential fee from exceeding seventy dollars (\$70) without express legislative approval. The credential fee, established annually in the Budget Act, is currently at the statutory limit of \$70. Education Code §44235.3 authorizes the Commission to 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.

Table 3: Governor’s Budget Resource Projections

2013-14	TCF	TDAA	Total
Projected Beginning Balance (Reserve)	\$1,291,000	\$4,985,000	\$6,276,000
Projected Revenue	\$14,975,000	\$4,465,000	\$19,440,000
Total Projected Resources	\$16,266,000	\$9,450,000	\$25,716,000

The “point in time” projections included in the Governor’s Budget will change over time because the projections are developed for the budget year (2013-14) during the middle of the then current year (2012-13). For example, the beginning balance and revenues in Table 3 reflect projections made in fall 2012 as Commission staff worked with DOF to develop the proposed 2013-14 budget. These numbers change after the agency closes the fiscal year on June 30 and determines the final revenues and expenditures for the prior fiscal year, generally at the end of August.

The Importance of Reserves

Current law requires the Commission to maintain reserves in each fund to handle unanticipated fiscal liabilities and to ensure cash flow in any month when revenues are insufficient to pay that month’s expenditures (such as payroll). Current law also requires the Department of Finance (DOF), as part of the annual budget review process, 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% of the total amount that the Commission is authorized to spend in a fiscal year.

Special fund agencies such as the Commission must monitor their revenues to ensure they are consistent with the projections made in the Governor’s Budget. If the Commission’s revenues come in lower than the projection upon which the appropriation was based, the Commission must manage its expenditures to the lower revenue in order to avoid a deficiency. Even if the Commission’s appropriation is increased to account for some nondiscretionary price increases (such as Pro Rata), it is the agency’s revenue that determines how much of that increased appropriation the agency can spend. If revenues are insufficient to accommodate the price increases and the agency is unable to “absorb” the cost within its budget, the agency would need to utilize its reserves to pay the shortfall. A sufficient reserve helps protect the General Fund by ensuring that the Commission can operate without an emergency General Fund appropriation.

2013-14 Budget Challenges

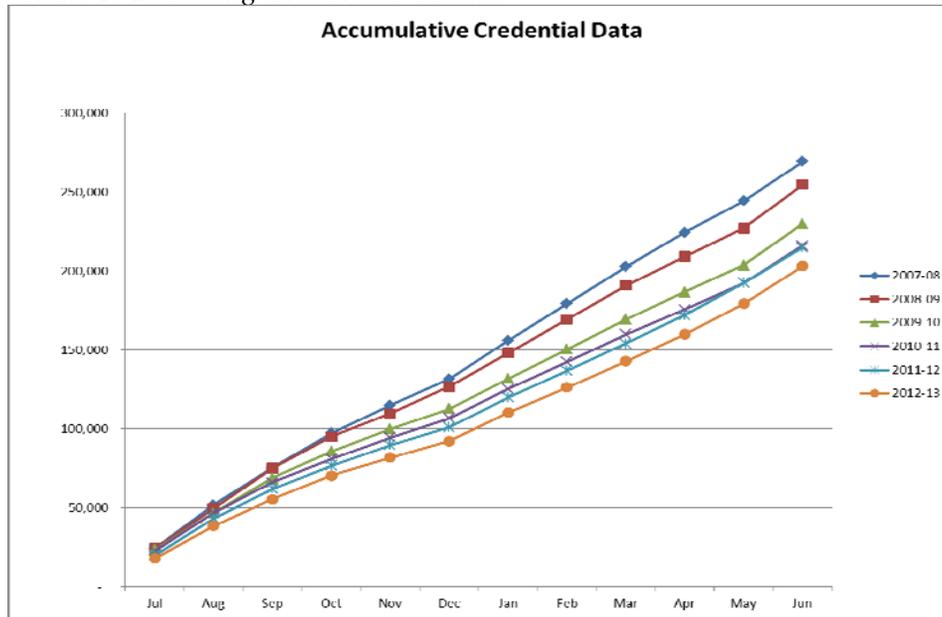
The Commission has faced significant budget challenges for the past several years. In spite of a \$15 fee increase that became effective July 1, 2012, the Commission experienced a revenue shortfall in 2012-13 that limited its ability to conduct accreditation site visits and other mission-critical activities. The Commission will continue to experience considerable fiscal constraints in 2013-14 as a result of declining revenues and reserves, significant increases in nondiscretionary costs, and an uneven revenue pattern, due to variations in credential application volume during the fiscal year.

Declining Resources

Annual credential volume declined by 25% from 2007-08 through 2012-13. Credential volume declined over that five year period, forcing the agency to cut costs and staff and limiting the scope of activities the Commission could undertake. Even with the increase in the credential fee

from \$55 to \$70 in 2012, revenues declined by over 4% due to a continued decline in credential applications, a transfer of \$2.7 million to the state’s General Fund to repay a one-time augmentation authorized by the 2009 Budget Act, and a year-end correction to reported revenue. Chart 1 shows the decline in annual credential volume from 2007-08 through 2012-13.

Chart 1: Declining Credential Volume



Increased Costs

Nearly 90% of the OE&E costs are nondiscretionary. These costs have increased 32% since 2007-08. Over the past five fiscal years, state central administrative services (Pro Rata) costs increased by 164%, Consolidated Data Center costs were up 152%, costs for facility operations increased by 28%, and costs for Consulting and Professional Services (primarily agency services such as the Attorney General) increased by 17%.

In the current year, nondiscretionary prices are expected to increase by another \$92,000. In addition to nondiscretionary OE&E costs, the Commission faces approximately \$800,000 in increased costs associated with salaries, wages, and benefits that were not reflected in the Governor’s Budget, due to the end of the state’s furlough requirements and new bargaining contracts. These increases have the effect of shrinking the OE&E available for agency operations and core functions.

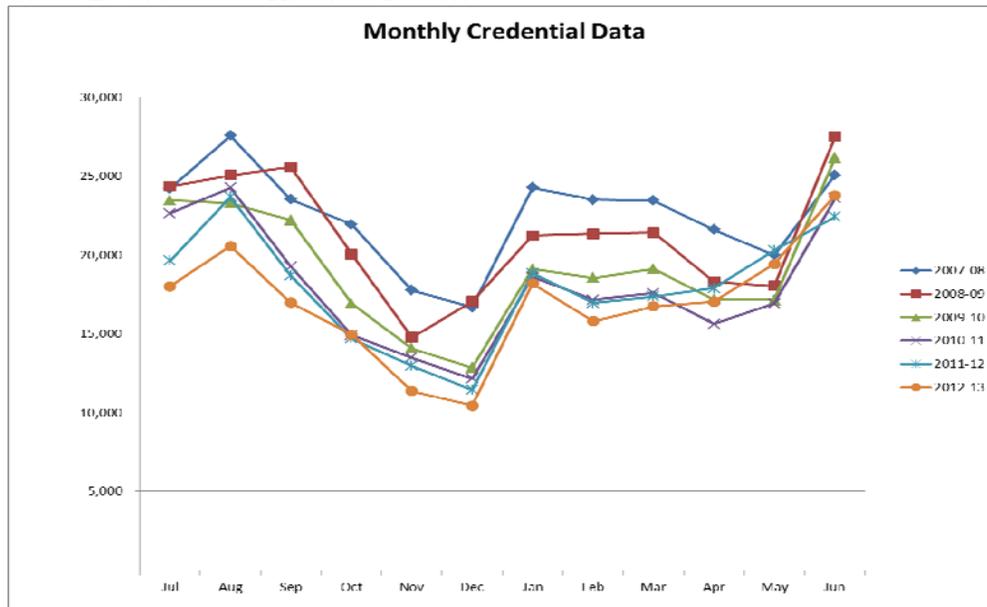
In response to contracting revenues and rising nondiscretionary costs, the Commission has reduced controllable expenditures. Between 2007-08 and 2012-13, the Commission reduced its operational costs by 75%, including a 4% reduction in staffing levels. In order to “live within its means” the Commission has reduced discretionary by \$1.7 million and reduced the use of temporary help by \$440,000. For the 2012-13 fiscal year, the Commission’s operational costs (after accounting for nondiscretionary costs and costs associated with statutory obligations to hold meetings) were approximately \$350,000.

Even with these extraordinary efficiency efforts and with careful management of the Commission’s resources last year, the Commission ended the 2012-13 fiscal year with a fund balance significantly lower than what was projected in the Governor’s Budget. Appendix A provides a comparison of the Commission’s actual state operations costs for 2012-13 and its projected state operations costs for 2013-14.

Uneven Revenue Pattern

Not only are year-to-year revenues for the TCF and the TDAA sensitive to changes in demand for credentials and exam registrations, within-year revenue flow varies because credential applications and testing registrations are unevenly distributed throughout the year. Credential volume is highest in late spring through summer and lower in fall to early spring. This revenue pattern adds to the complexity of balancing expenditures to revenue since revenues are below the average monthly expenditures for nearly eight months of the year. (It would take approximately 18,000 credential applications per month to support average monthly expenditures in the TCF of \$1.26 million.) The revenue pattern not only makes forecasting more difficult, it can create significant cash flow issues for the agency in the months when reserves are insufficient to cover the difference between revenues received and the Commission’s monthly expenditures. Chart 2 shows the uneven revenue pattern.

Chart 2: Credential Revenue Pattern



The Commission’s Budget “picture” has changed considerably since the Governor’s Budget was released in January 2013. The Commission ended last year with lower revenues than anticipated, reducing reserves available in the current year. Without increases to current year revenue, anticipated costs associated with new employee contracts and other nondiscretionary operating costs will require the continued redirection of resources. Although the Commission’s operating budget increased from 2012-13 to 2013-14, without increases to revenue, the Commission faces reduced funding available for core functions and operations in the current year by approximately \$205,000. This potential deficit could increase if the agency were to increase its discretionary expenditures over last year or if credential revenues are below \$14.9 million for the year ending

June 30, 2014. While the Commission can manage some of this shortfall through salary savings, the extraordinary low reserve in the Teacher Credential Fund will make it difficult for the agency to cover any unanticipated operating costs such as potential increases in costs from the Attorney General. Any unanticipated costs could result in the suspension of critical activities. The agency will continue to be vigilant in monitoring revenues to ensure they will support Commission expenditures.

2013-14 Revenue Projections

Using the revenue pattern and looking at credential volume over the past six months, staff estimate credential revenues for the 2013-14 fiscal year will be between \$14.9 million and \$15.3 million. While early indications from current year credential revenue indicate we are within that range, the low reserves in the TCF suggest the need to align the agency's spending plan to the lower end of that range.

Although most school districts are in recovery from the recession and the Local Control Funding Formula (LCFF) may enable school districts to hire new staff, which may increase enrollments in credential programs, these changes in demand are not expected to significantly increase revenues in the current year, although the Commission may see revenue increase in the future years. Even if a change in the state fiscal climate yields credential revenues above \$15 million by year end, it would be prudent to keep expenditures at the lower range in order to build the fund balance.

The Governor's Budget assumes \$200,000 in revenues from cost recovery for extraordinary accreditation activities. Should the Commission adopt emergency regulations to implement a cost recovery fee schedule at its September 2013 meeting, and have the emergency regulations approved by the Office of Administrative Law, the Commission will begin collecting cost recovery revenue by the end of the calendar year. Staff estimate cost recovery revenues for the 2013-14 fiscal year will be substantially less than \$200,000 estimated in the Budget.

In order to manage the Commission's 2013-14 Budget within the anticipated revenues, the Executive Director has directed staff to hold discretionary OE&E expenditures to the 2012-13 level and has directed staff to closely monitor savings from vacant positions. Executive Director Sandy will be working with senior managers to determine the availability of funding that can be redirected to accreditation activities.

Options

Reduced revenues over several years and significant increases in nondiscretionary costs have reduced the Commission's discretionary OE&E to a point it cannot fully support the agency's statutory mandates. While the Commission could, and arguably should, continue to identify and implement more efficient ways of doing business, further operational cost-cutting efficiencies may not be sufficient to yield substantial savings or free up enough funds for the Commission's accountability and standards work. Given the projected budget for accreditation site visits is approximately \$391,000, there are insufficient funds in the current year budget for the work scheduled in 2013-14.

It is also important to note that some costs that are viewed within managements control really are not. For example, postage is an expense that appears substantially within management's control. However a large percentage of the Commission's postage expense is used to mail legally required notices of investigations and adverse actions.

In the short-term, the problem may be addressed by a combination of expenditure reductions and a loan from the TDAA. However, the fiscal outlook suggests that a long-term solution is essential to ensure the Commission has sufficient funding to implement its statutory mandates.

The following are options are presented for the Commission's consideration.

Suspend accreditation site visits and delay implementation of some panel work for 2013-14

Arguably, the most appropriate way to mitigate higher costs or revenue shortfalls is to reduce expenditures. This was the approach taken last year when the Commission suspended accreditation and reduced nondiscretionary OE&E. However, the Committee on Accreditation found program quality eroded when accreditation site visits were suspended in the early 2000s, largely because site visits enable review teams to verify the assertions made by institutions about their programs. The Commission's accreditation system is the only quality control mechanism the state has over educator preparation programs and helps ensure the integrity of the credentials issued by the agency.

Authorize the Executive Director to request the DOF to transfer \$700,000 from the TDAA reserves to the TCF

The Budget Act authorizes the Commission to obtain a loan from the TDAA if there are insufficient funds in the TCF. Of the \$700,000 that would be requested, \$400,000 would transfer to the TCF reserves to help with current year cash flow when revenues are below monthly expenditures. The remaining \$300,000 would be allocated to the Professional Services Division for accreditation activities in the current year.

Seek greater flexibility to utilize TDAA funds within the year to support cash flow

Ordinarily, the Commission's reserves cover any cash flow problems that may occur when monthly revenues are insufficient to pay for monthly expenditures. However, since credential revenues are below monthly expenditure levels for more than half the months during the year, this approach strains TCF reserves, particularly when reserves are well below 10%. Given the Budget Act includes provisional language that authorizes the Commission to request a loan from the TDAA to the TCF, one option would be to seek provisional language in the Budget Act that would authorize the State Controller's Office to utilize TDAA funds to cover anticipated shortages in the TCF in those months that revenues fall below baseline expenditures and return those funds to the TDAA prior to the end of the fiscal year. In effect, this would pre-authorize a short-term loan that would be repaid at the end of the fiscal year when application volumes (and revenues) increase. While this would assist with cash flow issues in future years, it would not have an impact on the current budget year.

Increase the credential fee and index the fee to allow revenues to keep up with the cost of inflation

To date, the Commission has managed declining revenues and rising nondiscretionary prices by cutting operational costs and reducing crucial activities. However, the increases have eroded the ability of the Commission to conduct key agency activities, including accreditation site visits and field investigations by the Division of Professional Practices. The Commission may wish to submit a BCP asking for an increase in the credential fee to account for nondiscretionary price increases and to restore its ability to maintain an accreditation system that will enable the Commission to effectively monitor the quality of educator programs. In order to allow the fee to keep up with future price increases, the fee could be adjusted annually by an inflation index such as the Implicit Price Deflator for State and Local Government Purchases of Goods and Services. This measure of inflation is used to calculate increases to school district revenue limits and cost of living adjustments for community college districts. If the credential fee were tied to inflation, adjustments would be gradual and predictable for candidates and holders, avoiding large periodic increases and would support the agency's activities by ensuring that the Commission's budget is not eroded by inflation.

Charge for accreditation

Given that the Commission's accreditation system is modeled after regional accrediting systems such as the Western Association of Schools and Colleges (WASC), another option would be to fund the operational costs of the entire accreditation system by charging program sponsors annual fees to offer approved programs. However, the Commission has previously expressed concerns about this approach to funding this Commission responsibility.

Recommendation

Staff recommends that the Commission direct the Executive Director to do the following:

- Continue to monitor Commission expenditures to ensure they stay within revenues and to submit a letter to the Department of Finance requesting the transfer of \$700,000 from the TDAA reserves to the TCF for the purpose of providing funding to maintain cash flow in meeting payment obligations and for the purpose of providing \$300,000 for accreditation site visits in the current year.
- Submit a Budget Change Proposal for the 2014-15 fiscal year for 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% of the total amount that the Commission is authorized to spend in a fiscal year.
- Report, pursuant to Provision 9 of Item 6360-001-0407 of AB 110, Statutes of 2013, options for stabilizing the Teacher Credential Fund to the chairpersons and vice chairpersons of the budget committees of each house of the Legislature, the Legislative Analyst's Office, and the Department of Finance on or before November 1, 2013.

Appendix A
 Commission on Teacher Credentialing
 Budget Comparison
 2007/08 to 2012/13

	2007/08	2012/13	Increase/ (Decrease)	Change
Personal Services				
Salaries and Wages	9,570,294.89	8,600,707.32	(969,587.57)	-10.13%
Staff Benefits	3,255,069.25	3,699,062.73	443,993.48	13.64%
Subtotal Personal Services	12,825,364.14	12,299,770.05	(525,594.09)	-4.10%
Non-Discretionary OE&E				
Communication	129,969.59	77,154.23	(52,815.36)	-40.64%
Facilities Operations	571,320.43	730,542.60	159,222.17	27.87%
Cons/Prof Serv-Inte	1,521,695.19	1,786,519.86	264,824.67	17.40%
Information Techno	853,109.17	558,617.29	(294,491.88)	-34.52%
Central Ad Serv	640,806.00	1,691,211.00	1,050,405.00	163.92%
Consolidtd Data Cen	40,769.77	102,940.19	62,170.42	152.49%
Subtotal Non-Discretionary OE&E	3,757,670.15	4,946,985.17	1,189,315.02	31.65%
Discretionary OE&E (*)				
General Expense	297,238.62	143,085.14	(154,153.48)	-51.86%
Printing	133,796.69	25,320.19	(108,476.50)	-81.08%
Postage	304,993.78	34,945.48	(270,048.30)	-88.54%
Travel In-State	272,403.02	131,090.03	(141,312.99)	-51.88%
Travel Out-Of-State	12,512.62	-	(12,512.62)	-100.00%
Training	78,460.91	29,575.48	(48,885.43)	-62.31%
Cons/Prof Serv-Exte	1,004,039.86	259,613.27	(744,426.59)	-74.14%
Equipment	216,859.39	-	(216,859.39)	-100.00%
Subtotal Discretionary OE&E	2,320,304.89	623,629.59	(1,696,675.30)	-73.12%
Total State Operations	18,903,339.18	17,870,384.81	(1,032,954.37)	-5.46%

(*) Includes non-discretionary cost for Commission meetings, Commission on Credentialing, and Commission on Accreditation 2013/14 cost estimated at 275,000