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Information

Fiscal Policy and Planning Committee

Commission on Teacher Credentialing Budget

Executive Summary: This agenda item provides a brief introduction to the State budget process, a review of the Commission's past year budget and policy issues, and presents the Commission's budget for the current fiscal year, including projected revenue for 2014-15.

Recommended Action: For information only

Presenter: Philip Chen, Director, Fiscal and Business Services

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.

Commission on Teacher Credentialing Budget

Introduction

This agenda item provides a brief introduction to the budget process, a review of past year's budget and policy issues, an estimate of projected revenues for fiscal year 2014-15, and an overview of the Commission's budget for the fiscal year.

Background

The state's annual budget act is arguably the most important state 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 well-being, environmental protections, and the delivery of educational services, including the licensure of educators who work in public schools.

The Budget Act of 2014 (Chap. 25, Stats. 2014) was signed by Governor Jerry Brown on June 20, 2014. The Budget Act of 2014 appropriates resources for the support of the government of the State of California, including the Commission on Teacher Credentialing. A companion trailer bill, AB 858 (Chap. 32, Stats. 2014) provides additional statutory authority to the Commission, necessary to fully implement the Commission's fiscal plan for 2014-15.

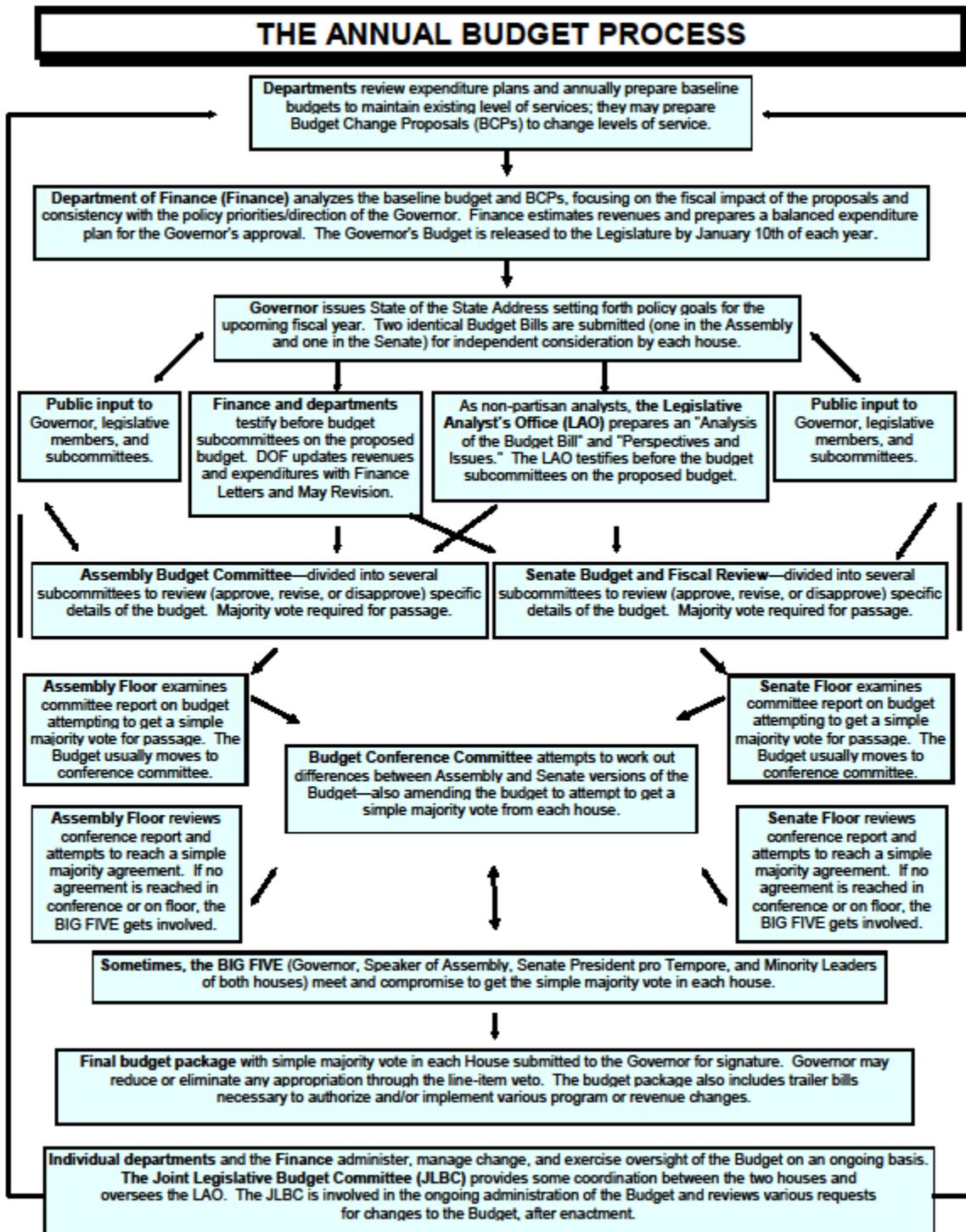
Budget Timelines and Process

The California 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 process of developing the Governor's Budget actually begins in the fall of each year after agencies have reported their final revenues and expenditures for the preceding fiscal year.

Agencies work with the Department of Finance (Finance) to adjust their base budgets based on various workload changes, and identify any potential policy/programmatic changes through the submittal of various Budget Change Proposals (BCPs) that may be included in the Governor's Budget. Once the Governor's Budget is submitted to the Legislature, the Legislative Analyst's Office (LAO), the Legislatures' nonpartisan fiscal advisor, publishes an extensive review of the proposed budget and it is this analysis that becomes the starting point for discussion in both houses of the Legislature. The budget committees and subcommittees of both 'houses' of the Legislature then examine the Governor's Budget in detail, and propose various changes to the plan based on their own priorities. Figure 1 illustrates the annual budget process.

Figure 1 - Budget Process



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During the spring months, the Administration gathers updated information on the various workload and policy proposals, and these refined estimates become the basis of the Administration's April Finance Letters, and/or May Revision. These "requests" go to the Legislature for additional consideration. The Legislature then considers these additional changes and has until June 15 to pass the budget.

Thus, the Governor’s Budget becomes an important budget document for all agencies, by providing the fiscal plan for managing expenditures for the fiscal year. The Budget Acts (including relevant trailer bills) provide the statutory (and budgetary) authority for that plan.

Commission Budget

The Commission is a special-fund agency within state government; supported entirely by fees. Historically, the Commission’s revenue has come from two sources: credential application fees, which are the primary source of revenue for the Teacher Credential Fund (TCF) and educator exam fees, which fund the Teacher Development and Assessment Account (TDAA). The Commission receives no General Fund monies to support its operating budget. In any given year, the Budget Act provides the *statutory* expenditure authority for the Commission to spend what is appropriated to both funds by the Act. However the *actual* expenditure authority depends on whether or not the Commission generates enough *revenue* to support the budgeted authority. In other words, if the revenues are not sufficient to support the Budget Act authority, the Commission would only be able to spend up to the revenues generated.

In recent years, these revenue sources have proven insufficient to fully support the agency due in large part to declines in credential applications from 2007-08 through 2012-13 and rising nondiscretionary costs. Even with the increase in the credential fee from \$55 to \$70 in 2012, revenues declined by over 4% in 2012-13 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. To address this structural imbalance, the 2013 Budget Act provided the Commission with the authority to collect fees for certain “extraordinary” activities associated with the review and approval of credential preparation programs.

Overview of 2013-14 Budget

The Budget Act of 2013 provided the Commission a total of \$19.5 million to support the Commission during the 2013-14 fiscal year. This was split between the two funds, the Teacher Credentialing Fund (TCF) and the Test Development and Administration Account (TDAA). The authority provided was \$15.1 million and \$4.2 million, respectively. In addition, the Commission has budgetary authority for \$308,000 in “pass through” funding, funding from the California Department of Education (CDE) which is then passed through to local education agencies for costs to monitor teacher assignments.

The Commission’s 2013-14 revenues came from three sources: 1) Teacher Credentialing Fees, 2) “Extraordinary” fees – charged when program sponsors require additional Commission oversight to satisfy various program requirements, and 3) Test fees – various charges on individuals taking various tests to satisfy Commission credentialing requirements.

The Commission’s preliminary year end fiscal data for 2013-14 suggests that revenues matched the appropriation authority in each of the sources. For the TCF, data indicate that the Commission received approximately \$15.4 million in revenue from credential fees and approximately \$35,000 in revenue from fees from “extraordinary” accreditation activities. In addition, the Commission received approximately \$4.2 million in revenue from examination fees. The final year-end numbers for the 2013-14 will be available at the end of August.

Table 1 - Estimated 2013-14 Revenues

2013-14	TCF - Credentials	TCF - Extraordinary	TDAA	Total
Budget Act 2014, Est. Revenue	\$15.4 million	\$35,000	\$4.2 million	\$19.6 million
Governor's Budget, Est. Revenue	\$15.3 million	\$50,000	\$4.1 million	\$19.5 million

While it appears from the preliminary revenue reports that TCF and TDAA revenues matched the Budget Act appropriation, the Commission anticipates a reduction to prior-year revenues, which will reduce the TCF reserves significantly. To minimize the need for these adjustments in the future, the Commission staff has implemented new fiscal systems and procedures to more regularly reconcile expenditure and revenue records with the State Controller's Office.

Current Year Budget Issues

While the final year-end numbers for fiscal year 2013-14 are not yet available, estimates show the Commission is beginning its fiscal year 2014-15 with a slightly better reserve in the TCF than last year, notwithstanding the negative adjustment to the TCF.

The omnibus education trailer bill (AB 858), enacted as part of the 2014 Budget Act, provides the Commission with new statutory authority to collect fees for accreditation activities. This authority is in addition to the Commission's authority to collect fees for "extraordinary" review activities. These new fees will help to support important program review (accreditation) activities such as site visits, pre-site visits, program review team training, and revisions to accreditation framework. The Commission approved emergency regulations to allow the Commission to collect this fee at its June 2014 meeting. (<http://www.ctc.ca.gov/commission/agendas/2014-06/2014-06-3A.pdf>)

The Budget Act also provides the State Controller's Office (SCO) statutory authority to allow for short-term cash flow adjustments to the TCF, using TDAA funds. Should the SCO see the TCF reserves insufficient to cover expenses, the SCO can make a short-term transfer from the TDAA to the TCF, without the Commission having to request adjustments from the Department of Finance. The TDAA reserve remains healthy.

These new fiscal tools help bolster the Commission's revenue so that it is sufficient to cover its appropriation authority, and manage its cash flow should TCF reserves be insufficient.

Fiscal Year 2014-15 Expenditure Authority

The Budget Act of 2014 provides appropriation authority of \$15.9 million in the TCF, and \$4.2 million in the TDAA. The Commission also has \$308,000 in reimbursement authority, to reimburse county offices of education for work associated with teacher mis-assignment monitoring, and \$175,000 for participation in the Collaboration for Effective Educator Development Accountability and Reform (CEEDAR). Reimbursement authority provides authority to expend Commission resources, but requires the Commission be reimbursed for

these expenses. In this case, the California Department of Education (CDE) would reimburse the Commission the \$308,000.

Table 2 - Budget Act of 2014 Appropriation

2014-15	TCF	TDAA	Reimbursement	Total
Appropriation	\$15,919,000	\$4,218,000	\$483,000	\$20,620,000
Percentage	77.9%	20.6%	1.5%	

In total, the Budget Act of 2014 provides the Commission \$20.4 million and 152.4 positions in budgetary authority. Approximately 77.9% of the Commission’s total budget is supported by the TCF, 20.6% by the TDAA, and 1.5% by reimbursements.

Fiscal Year 2014-15 Revenue Projection

In any given year, the Commission’s appropriation authority is based on estimates of projected revenue for both funds. Projected credential revenues for 2014-15 in the TCF remain stable from 2013-14 at \$15.3 million in teacher credential fees, and \$850,000 in program review fees of which \$650,000 is from accreditation fees. Projections for the TDAA also remain stable, at \$4.1 million. Including the reimbursements from CDE, revenues are projected at \$20.8 million.

Special fund agencies such as the Commission must monitor their revenues closely, to ensure they are consistent with projections made for the Budget Act. If the Commission’s revenues are consistent with the projections noted above, the Commission will be able to begin rebuilding its reserve for economic uncertainties. If Commission revenues are less than projected, the Commission would need to reduce expenditures in order to avoid overspending its resources.

Table 3 - Projected Revenues, 2014-15

2014-15	TCF	TDAA	Reimbursement	Total
Revenue	\$16.2 million	\$4.1 million	\$483,000	\$20.8 million
Percentage	78.6%	19.9%	1.5%	

Fiscal Year 2014-15 Budget Projection

Approximately \$14.1 million (69%) of the Commission’s total expenses are projected to be for Salaries and Benefits for the employees of the Commission. The remaining expenses (\$6.4 million, 31%) are expected to support normal operating expenses and equipment costs. For the salaries and benefit costs, this represents an increase of \$514,000 over Budget Act of 2013 levels.

Of the \$6.1 million in operating expenses, approximately 83% will be allocated to support various fixed or “non-discretionary” costs. These fixed costs are costs that are largely outside the Commission’s control such as “ProRata” costs for the state’s centralized administrative services (Governor’s Office, State Controller, Auditor, Treasurer, Department of Finance, CalHR, and Health/Dental for Annuitants) and other costs such as rent, information technology, and interagency agreements with other state agencies also contribute to these expenses. These costs increased approximately \$70,000 from Budget Act of 2013 levels.

It should be noted that even if the Commission’s appropriation authority is increased to account for some of these costs, the agency must nonetheless ensure it generates the revenue to support those expenditures. If revenues are insufficient to fully support the expenditures, the agency would need to reduce expenditures to cover the shortfall because reserves remain relatively low.

For 2014-15, estimates suggest these “non-discretionary” costs will be approximately \$5 million. When added together, salaries and benefits and non-discretionary costs constitute roughly 95% of the Commission’s Budget. This leaves roughly \$1 million, or 5% of the Commission’s operating budget for the Commission’s various “discretionary” activities. This is an increase of approximately \$317,000 above Budget Act of 2013.

Table 4 - Expenditures by Category

2014-15	Total Authority	Salaries & Benefits	Operating Expenses – Non Discretionary	Operating Expenses - Discretionary
Total	\$20.4 million	\$14.1 million	\$5 million	\$1 million
Percentage	100%	68.8%	26.1%	5%

However, a distinction must be made; this funding is not truly “discretionary” as it is most commonly defined. While the Commission has some discretion or control over some costs such as office supplies or how often a panel might meet, many of the activities funded from this portion of the Commission’s budget are not discretionary, but part of the Commission’s normal responsibilities. These include accreditation, workload associated with educator misconduct reviews, and Commission, Committee on Credentials and Committee on Accreditation meetings.

Provided the Commission meets revenue projections (approximately \$15.3 million in Credential revenue, \$650,000 in program review fee revenue, and \$200,000 in extraordinary fee revenues) for 2014-15, and the current level of expenditures remain stable, the structural imbalance seen in years past should largely be addressed.