

Status of the Commission's Fiscal Structure

Summary

The credential fee is designed to fund all of the Commission's operating expenses. The inherent problem with this revenue structure is that application volumes and thus revenues vary dramatically as a result of the implementation of new policies. This variation, which has most recently resulted in a decrease in annual applications/revenues, coupled with the nearly simultaneous reduction of the credential fee from \$60 to \$55 and the shift of costs related to the Teacher Credentialing Service Improvement Project (TCSIP) to the Teacher Credentials Fund (TCF) (0407) has resulted in a situation in which revenue levels will be insufficient to support the ongoing costs of the Commission as annual revenue sources decrease. Both long-term and short-term strategies have been presented that would, together, provide for the long-term stability of the TCF.

Background

The Commission's operations are supported through the fees for licensure which are deposited to the TCF and fees for examinations related to licensure which are deposited to the Test Development 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:** As the licensing branch of the Commission, responsible for evaluating and processing over 245,000 applications for authorization to serve in California's public schools annually. Also responsible for Commission's customer relations management including responses to over 38,000 e-mails, 259,000 phone calls, and 7,300 pieces of correspondence.
- **Professional Practices Division:** Responsible for the review and monitoring of the fitness and professional conduct of credential applicants and holders;
- **Professional Services Division:** Responsible for the development and implementation of teacher preparation standards, evaluation and accreditation of teacher preparation programs, exams and implementation of state-funded teacher recruitment and retention programs;
- **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. Application volumes vary dramatically as a result of the implementation of new policies such as Class Size Reduction (CSR), which increased applications in the late 1990s, and current State and Federal efforts to increase the number of fully credentialed teachers (5 year annual renewal fee) and reduce the number of individuals serving on emergency permits and waivers (annual fee), which ultimately decreases the number of annual applications and therefore, revenue.

This is the situation with which Commission is currently faced. Annual revenues are decreasing as the number of individuals needing to apply for credentials annually decreases.

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. It is important to note that beginning with FY 2000-01, growth in credential applications slowed significantly. In fact, actual growth in revenue has not exceeded more than 1.5% per year since that time.¹

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 Teacher Credential 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 of TCSIP expenditures to the TCF in FY 2002-03.²

This shift in appropriation, coupled with a decrease in applications that are renewed annually, has resulted in the current situation in which the remaining TCF balance has been completely drawn down and current revenue levels are insufficient to support the ongoing costs of the Commission.³ It is important to note that, had either the credential fee remained at \$60 or the TCSIP continued to be funded from the General Fund the TCF would still have a sizeable fund balance. The current situation has resulted in somewhat of a "Catch-22" for the Commission as the State's extensive work to reduce the issuance of emergency permits and waivers (annual fees), a significant positive policy achievement, has resulted in a corresponding decrease in revenues for the Commission.

Given current and anticipated revenues and expenditures, we would expect that the TCF revenues will continue to decline absent an increase in fees or a drastic decrease in expenditures. There are several options to be considered to address this situation and it is conceivable that the Commission would implement one or more of these options concurrently in an effort to resolve this situation on both a short and long term basis. These options are outlined below and a detailed discussion of the impact of each option follows:

- Provide a loan from the TDAA to the TCF to cover the anticipated shortfall in FY 2003-04 and 2004-05.
- Increase the credential application fee to cover the actual costs of Commission activities.

¹ Although it would appear that there is significant increase in revenues from credential applications as reflected in the fund condition in the Governor's Budget, this increase reflects the reinstatement of a fee for first time credential applications that had previously been offset by a General Fund appropriation and a point in time assumption of future revenue growth that has not materialized.

² The Commission understands that DOF's preferred funding model for the TCSIP would have lessened the severity of this situation in FY 2003-04, however, the ongoing result over time will be the same, without regard to the funding model.

³ The expansion of the teacher preparation pipeline in response to CSR and resulted in a decrease of annual applications and an attendant decrease in revenues.

- Pursue a budget augmentation from the General Fund to cover the actual cost of providing services that are required but no longer funded due to the decline in revenues.
- Reduce staffing levels and associated costs.
- Reduce expenditures for Operating and Equipment.

Provide a loan from the TDAA to the TCF to cover the anticipated revenue shortfall in FY 2003-04 and 2004-05.

Provision of a loan would provide the support necessary for the Commission to continue to fulfill its mandated mission without further reducing service levels. In addition, the timing of the loan would provide an opportunity for the Commission to work with the Administration to develop an appropriate long-term resolution to this problem.

At the end of FY 03-04 the TDAA is estimated to have a fund balance both sufficient to support the ongoing work and contractual obligations required from this fund, as well as provide for a loan to the TCF. The loan would be repaid when the TCF has built up sufficient resources to support both ongoing costs and loan repayment.⁴

Increase the credential application fee to cover the actual costs of Commission activities.

Since the credential fee is designed to cover the Commission's operating expenses, and application volumes can vary dramatically as a result of changes in policy direction, it is necessary to consider the modification of credential fees to more accurately reflect projected application volumes.

Given the sensitivity of any proposal to raise fees, it might be appropriate to combine this option as a long-term strategy to resolve the deviation between revenues and expenditures, with other short-term strategies such as the loan (discussed above) and expenditure reductions (discussed below) to allow for the development of support for this policy change.

For example, a \$60 application fee and/or renewal fee (every 5 years) is consistent with, if not significantly less than, those fees for other professions including but not limited to: doctors, nurses, lawyers, licensed clinical social workers, marriage and family counselors, psychiatrists, psychologists, eldercare providers, pharmacists, cosmetologists, childcare providers and certified public accountants.

Pursue a budget augmentation from the General Fund to cover the actual cost of providing services that are required but no longer funded due to the decline in revenues.

Given the current condition of the General Fund, this not a viable option.

Reduce staffing levels and associated costs.

While it might be anticipated that a decline in applications would result in a decreased staffing need, reduction in personnel has already taken place. On July 1, 2002, as required by Control Section 31.60 of the 2002 Budget Act the Commission lost 10.5 positions.⁵ In addition, on July 1, 2003, pursuant to Executive Order D-71-03, it appears that the Commission will lose an additional 7.75 positions.⁶

While the Commission has been able to accommodate vacancies on a short-term basis, the additional July 2003 permanent personnel reductions will severely reduce service levels as the

⁴ Timing of the loan repayment will depend on the overall long-term strategy to resolve the Teacher Credential Fund shortfall.

⁵ 10.5 positions: (3) from the Division of Professional Practices, (2.5) from the Certification, Assignment and Waivers Division, (2) from the Professional Services Division and (3) from the Administrative Division.

⁶ 7.75 positions: (4) from the Certification, Assignment and Waivers Division, (2.75) from the Professional Services Division and (1) from the Administration Division.

Commission is already under staffed based on current workload. Further reductions in personnel will hinder the Commission's ability to comply with statutory requirements.

Reduce expenditures for Operating Expenses and Equipment.

Commission management has already severely reduced or terminated training funds, contracts, temporary help and overtime in efforts to operate within existing resources given the fiscal constraints resulting un-funded workload and cost increases (implementation of SB 2042, postage, information technology) In fact, in response to the initial trend of declining applications/revenues, Commission management determined that any operating savings would be returned to the TCF, instead of fully expending our appropriation, as many departments do at the end of the fiscal year. The result is that the Commission did not fully expend its FY 02-03 TCF appropriation in an effort to reduce the pressure on the TCF.

This appears to be a one-time opportunity as future operations savings will be utilized to meet salary savings and un-funded employee compensation requirements [retirement benefits].

Conclusion

Staff will continue to work with the Administration to develop a plan to provide for the long-term stability of the TCF, ensuring that there are sufficient revenues levels to support the ongoing costs of the Commission. Staff will update the Commission as new information becomes available.