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Information/Action

Fiscal Policy and Planning Committee

Options for Program Review Revenue

Executive Summary: This agenda item provides an overview of the Administration's 2014 Budget Act proposal to provide the Commission authority to charge fees to cover program review activities and presents and analyzes various options for implementing a program review fee policy.

Recommended Action: Staff recommends that the Commission consider the options described and provide direction to staff regarding its policy choice.

Presenter: Beth Graybill, Chief Deputy Director, Executive Office; Teri Clark, Director, Professional 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.
- Demonstrate professionalism and accountability for high standards of practice in all Commission operations.

April 2014

Options for Program Review Revenue

Introduction
This agenda item provides an overview of the Administration's 2014 Budget Act proposal to provide the Commission authority to charge fees to cover program review activities and presents and analyzes various options for implementing a program review fee policy.

Background
Current law, Education Code §44374.5, authorizes the Commission to charge fees to recover the costs of accreditation activities in excess of regularly scheduled data reports, program assessments and accreditation site visits. The Commission promulgated regulations to implement this authority, which became effective on October 30, 2013. Commission staff anticipate receiving approximately $50,000 in cost-recovery revenue for FY 2013-14.

The Commission has faced significant budget challenges over the past few years due to declining revenue and significant increases in operating costs. An overview of the Commission's 2013-14 budget provided at the September 2013 meeting outlined these issues in detail (http://www.ctc.ca.gov/commission/agendas/2013-09/2013-09-3A.pdf). The September agenda item noted that declining revenues and increased costs have reduced the share of funding available for mandated activities such as accreditation reviews and noted that absent a significant (and unlikely) increase in credential volume or another means of increasing revenue, the Commission would continue to experience fiscal constraints that would limit its ability to carry out its mission. The September agenda item also reported that uneven credential revenue patterns contribute to cash flow challenges in the months when reserves are insufficient to cover obligated expenditures.

On January 9, 2014, Governor Jerry Brown submitted to the Legislature his proposed spending plan for the 2014-15 fiscal year. To enable the Commission to continue to meet its mandated responsibilities, the Governor's Budget proposed an increase in expenditure authority of $650,000 for the Teacher Credentials Fund for educator preparation program reviews to be supported by revenue generated from program review activities. The Administration's proposal would require institutions of higher education and local educational agencies that sponsor credential programs to share in the cost of accreditation activities. Ongoing statutory authority to charge fees for these activities will be included in one of several "trailer bills" that will follow the Budget Act. An overview of the Governor's proposed 2014-15 budget for the Commission was provided at the February 2014 meeting (http://www.ctc.ca.gov/commission/agendas/2014-02/2014-02-2A.pdf).

Overview
The Department of Finance (DOF) has released a draft of the proposed Omnibus Education Trailer Bill. A copy of the sections pertaining to the Commission are contained in Appendix A. The entire trailer bill language can be accessed on the DOF website at

http://www.dof.ca.gov/budgeting/trailer_bill_language/education/documents/%5b300-304,%20306-308,%20310-333%5d%20Omnibus%20Education%20Trailer%20Bill.pdf.

The proposed Trailer Bill contains two sections that would impact the Commission. Specifically, this bill:

1. Requires the State Controller to transfer money from the Test Development and Administration Account (TDAA) to the Teacher Credentials Fund (TCF) if there are insufficient moneys in the TCF to satisfy monthly payroll obligations and scheduled expenditure obligations. The bill requires moneys so transferred to be returned to the TDAA as soon as there are sufficient moneys in the TCF to do so, but no later than 60 days after the transfer was made. If sufficient moneys do not accumulate in the TCF within the 60-day period, the bill provides for the remaining balance to be returned to the TDAA in monthly installments as money accumulates in the TCF.

2. Authorizes the Commission to charge fees to cover the standard costs of reviewing existing educator preparation programs and requires sponsors of educator preparation programs to submit the established fee to the Commission. The bill prohibits the Commission from waiving the fee for the review of existing programs for in-kind contributions from sponsors of educator preparation programs. The bill further requires the Commission to notify the chairpersons of the committees and subcommittees in each house of the Legislature that consider the State Budget and the Department of Finance at least 30 days before implementing the fees and at least 30 days before making any subsequent fee adjustments.

Analysis
The proposed Trailer Bill language provides the opportunity to restore fiscal stability to the Commission in two ways.

Strengthens cash flow management
The proposed language enables the Commission to manage cash flow challenges that result from an uneven revenue pattern and low reserves in the TCF. Revenues vary within the year because credential applications and testing registration are unevenly distributed throughout the year. Credential volume is highest in late spring through summer and lower in late fall and winter. When revenues are insufficient to support payroll and other obligations, the Commission typically draws from its reserves to cover the shortfall. However, when TCF reserves are insufficient to support the shortage, as they have been in recent years, the Commission has accepted loans from both the General Fund and the Test Development and Administration Account, and the Department of General Services has had to draw from its revolving fund to "advance" deposits to the Commission, accounting for the "advance" by reducing later fund deposits. These transactions have added to the complexity of accounting services provided to the Commission by DGS and make it more difficult to accurately compare the Commission's records of deposits with funds actually remitted to the TCF. The proposed language will require the State Controller to instead temporarily draw from the TDAA reserves to address short-term cyclical deficits and provides a systematic process for returning the funds to the TDAA. The proposed process provides a reasonable safety net for the Commission until such time as TCF reserves are restored to a healthy level.

Balances revenues and expenditures
An underlying imbalance in revenues and expenditures has steadily reduced what the Commission can spend on meeting its statutory responsibility to ensure the quality of the state's educator workforce. Even with significant reductions in operating costs and a $15 increase in credential fees in July 2012, credentialing revenue has been unable to fully support the operational costs of the Commission, prompting the Commission to suspend accreditation site visits in 2012-13. Although site visits resumed in 2013-14, Commission staff implemented several changes to accreditation activities to reduce the cost of site visits. While the Commission's accreditation system could and arguably should be streamlined, further economizing that limits the ability of review teams to conduct a meaningful review could put at risk the validity of site visit findings in the future. By authorizing the Commission to charge fees to cover the standard costs of reviewing new and existing educator preparation programs, the proposed Trailer Bill provides the Commission an opportunity to correct this structural imbalance and restore fiscal stability.

Discussion
Historically, the Commission's revenue structure reflected a philosophy that all professional educators share in the cost of services provided by the Commission. The Trailer Bill would have the effect of requiring sponsors of credential programs to share in the cost of those Commission services aimed at ensuring the quality of educator preparation. While it is possible that the Trailer Bill may be amended as it moves through the legislative process and, although the Budget Act will not become effective until July 1, 2014, the options discussed below provide the Commission an opportunity to begin considering how it might implement a reasonable and fair program review fee policy. Further, it provides program sponsors, who may also be engaged in budget planning for the 2014-15 fiscal year, an early indication of potential costs associated with program review activities. The outcome of this discussion will enable Commission staff to return at the June meeting with proposed Title 5 Regulations that, if adopted as "emergency" regulations, could become effective concurrently with the Budget Act.

Assumptions
The options presented below are intended to guide the Commission's discussion with stakeholders to help ensure a thoughtful and equitable fee policy. Each option was analyzed based on the following assumptions:

- There are a total of 261 program sponsors approved by the Commission to offer credential preparation programs. Of that amount, 89 are Institutions of Higher Education (IHEs) and 169 are Local Educational Agencies (LEAs), and 3 are non-institutional entities.

- There are currently 1,395 approved credential preparation programs. Of that amount, there are 698 preliminary teacher preparation programs, 185 programs leading to a clear teaching credential, 255 services credential programs, 107 programs that offer an Educational Specialist Added Authorization program, 41 Designated Subjects programs, and 109 other preparation programs.

- There are approximately 40,000 credentials (teaching and non-teaching) recommended by approved programs, including 13,000 new teaching credentials issued each year. Commission data indicate 26,231 teacher candidates enrolled in preliminary teacher preparation programs offered by 89 program sponsors (23 CSU campuses, 8 UC campuses, 50 private/independent colleges and universities, and 8 district intern programs) for the 2011-12 fiscal year.

- CSU campuses prepared almost half (49.7 percent) of the candidates who applied for new teaching credentials in the fiscal year 2012-13. For initial teaching credentials, private/independent colleges and universities prepared 43.1 percent and UC programs prepared 7.1 percent of candidates applying for the new teaching credentials.

Evaluation Framework

In order to evaluate the various alternatives (fee options) for setting the annual accreditation fee, criteria should first be established. The following section details the basis by which the Commission could evaluate various fee options.

- **Administrative ease –** The ease by which a fee could be administered should be a factor in the evaluation of fee options. A fee policy that would require Commission staff to calculate fees for each program, issue invoices, and maintain accounts receivable ledgers could require additional costs that would erode revenues generated by the program review fees. To reduce administrative costs that impact the ability of the Commission to fully utilize revenue to cover program review activities, the fee policy should not be overly burdensome for the Commission. An efficient fee policy should also have minimal administrative costs for program sponsors.

- **Non-regressive, non-progressive –** The inherent fairness of a fee should be a factor in the evaluation of fee options. There are wide variations in the types of institutions that provide educator preparation programs throughout the state; these range from large public institutions such as the University of California and California State University systems, to local educational agencies with programs, to private non-profit institutions and private for-profit institutions. This variety of institutions suggests a range of abilities to absorb the impact of the new fees. An equitable fee policy should consider that the various program sponsors will have different abilities to absorb the fee.

- **Reflective of accreditation costs –** The extent to which a fee policy reflects the Commission's costs associated with program review workload should be considered. The Commission expends more resources to review program sponsors that offer a variety of programs than it does for program sponsors offering only one program. Institutions that offer several credential programs require more reviewers and larger accreditation teams, while those that offer only one type of credential require fewer reviewers. Because the proposed statute allows for the fees to cover the "standard" costs of accreditation, the fee should consider standard costs associated with the accreditation function. This should include costs for travel by site visit volunteers, hotel and food costs, and other accreditation related costs.

- **Addresses Cash Flow Problems –** The Commission has struggled with cash flow problems in recent history. An internal analysis of the various revenue streams that support the Commission show that revenues typically are lowest in the Fall, and highest in the Winter, suggesting that revenues match educator preparation program schedules.

Additionally, those educators renewing their credentials typically do so after the school year ends, which also correlates with revenue patterns. Fees could be scheduled so that they are due in the Fall months, providing some level of cash flow relief during the months that credential application revenues are low.

Program Review Fee Options

The Commission may wish to consider one or more of the following options:

1. *Uniform per-institution fee* - A per-institution fee policy would impose a uniform or "flat" fee across all program sponsors, regardless of the number of candidates enrolled in the program or the number of programs offered. For example, the Commission could charge each of the 261 program sponsors an annual fee of $2,500. While the flat-fee approach would be easy for the Commission to administer, it is likely to be regressive and have a disproportionate impact on smaller program sponsors. Additionally, this approach does not reflect accreditation workload as costs associated with program reviews are a function of the number of programs offered by a sponsor.

2. *Fee based on candidate enrollment or credential recommendations* - A fee policy linked to the number of candidates enrolled in or recommended by a program would be more proportional than a flat, per-institution fee and would arguably be reflective of the scope of workload. Institutions with larger enrollments would pay higher fees than small institutions with fewer candidates. Institutions that recommend a large number of candidates typically require larger teams than sponsors that have smaller enrollments. Such a policy could be approached in one of three ways:
   a) *Number of candidates enrolled in all accredited programs at an institution* (college, university, or local educational agency). This approach would require the Commission to collect and reconcile program enrollment data and issue credits or invoices for differences following those reconciliations. While billing could be scheduled so that revenues would be received during low-volume application months (i.e. November and December), a portion of the revenue generated would be offset by one-time costs associated with system changes and staff costs associated with reconciling data, billing program sponsors, and managing accounts receivables. This approach may not reflect the scope of work for those sponsors who offer many programs but have a relatively small total enrollment. As an example, if there are approximately 40,000 individuals enrolled in teacher preparation programs and the accreditation fee system should generate $650,000, an institution would be charged $16.25 per individual enrolled under this approach.

   b) *Per individual recommended transaction fee.* This approach would have the benefit for the Commission of being relatively easy to administer because the fee would be collected at the same time and in the same manner as the candidate's credential fee and would not require separate billing and accounts receivable resources. The Commission could levy a fee on the institution at the time that each candidate is recommended for the credential. The Commission would incur some one-time costs associated with modifying its existing online system to collect transaction payments from program sponsors. However, this approach could be challenging for programs to administer. Sponsors would likely need a credit card or electronic fund transfer system to pay the transaction fees. Further, revenue would correspond to credential application revenue patterns. As in option 2a, above, this would be approximately $16.25 per individual recommended for a credential.

c) *Per individual recommended in prior fiscal year.* This approach would require the Commission to collect and reconcile credential application data and bill programs annually (e.g. August 1 of each year) based the total number of program completers recommended for a document in the prior fiscal year. Revenues generated through this approach would be offset by one-time costs associated with making any necessary changes to the Commission's data systems and moderate ongoing costs associated with generating bills and managing accounts receivables.

3. *Variable fee structure* – A third option for the Commission to consider would be a variable fee schedule that would vary based on levels of candidate enrollment or the number of programs offered. Either approach reflects workload associated with program reviews and meets the test of administrative ease, since programs would pay fees according to an established fee schedule that would be posted on the Commission's website. Due dates could be established to support cash flow by requiring payment from program sponsors during months in which credential volume is low, such as in November or December. A tiered fee policy could be approached in one of two ways:

a) *Tiered fees based on total number of recommends in the prior fiscal year:* For example, the Commission could establish 5 tiers as shown in Table 1:

Table 1: Sample tiered fee schedule based on credential recommendations

Tier	**Enrollments**	**# of Sponsors in Tier**	**Total Recommendations**	**Fee per institution**	**Potential Revenue**
1	0-50 recommends	143	2,470	$594	$ 85,000
2	51-100 recommends	33	2,507	$2,272	$ 75,000
3	101-300 recommends	43	7,275	$4,186	$180,000
4	301-600 recommends	24	10,307	$6,250	$150,000
5	Over 600 recommends	18	17,900	$10,000	$180,000

A difficulty with this approach is that it has a disproportionate effect on very small programs, which tend to be smaller induction programs and credential programs offered by smaller, private colleges and universities. To ensure accuracy, it would also require the Commission to review program completer data and from those data, generate annual invoices to institutions, which would increase staff resource costs for the agency.

b) *Variable fees based on the number of programs offered by a program sponsor.* Under this approach, the Commission could establish a modest per institution flat fee and charge additional fees per program. This fee approach is similar to national accreditation policies such as those of NCATE and also regional accreditation such as the Western Association of Schools and Colleges. For example:

Table 2: Sample variable fee schedule based on programs

Base Fee	# of Sponsors	Per Program Fee	# of Programs	Potential Revenue
$1,000	261	$300 per program	1,395	$679,500
$1,200 (includes 1 program)	261	$300 per program after the first program	1,134	$653,400

A variable fee that includes a combination of a base rate and additional fees per program provides the closest nexus to accreditation workload and would not require individual billing, since the fee schedule could be posted online. Additionally, this approach has the added benefit of smoothing out the credential revenue cycle, since the Commission could require fees to be paid each November, when credential revenue typically declines.

Staff Recommendation

Staff recommends the following in relation to the options for program review revenue:

1. That the Commission discuss the options described and provide direction to staff regarding its policy choice; and
2. Direct staff to proceed with preparing emergency regulations for the June 2014 meeting.

Next Steps

Pursuant to Commission direction and action in April, staff will prepare draft emergency regulations for consideration and action at the June 2014 meeting. Upon passage of the Budget Act, staff will proceed with preparing an emergency regulatory file and begin the regular rulemaking process, including the scheduling of a public hearing to adopt permanent regulations for program review revenue.

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Appendix A

Sections 9 & 10
Omnibus Education Trailer Bill
2014-15 Budget Act

SEC. 9. Section 44235.2 is added to the Education Code, to read:

44235.2. (a) If in any month there are insufficient moneys in the Teacher Credentials Fund to satisfy monthly payroll obligations and scheduled claims, and there are moneys in the Test Development and Administration Account not required to meet any demand that has accrued or may accrue against it, the Controller shall transfer moneys from the Test Development and Administration Account to the Teacher Credentials Fund to the extent necessary to meet the immediate obligations of the Teacher Credentials Fund.
(b) Moneys transferred pursuant to subdivision (a) shall be returned to the Test Development and Administration Account as soon as there are sufficient moneys in the Teacher Credentials Fund to do so, but by no later than 60 days after the transfer was made.
(c) If sufficient moneys do not accumulate in the Teacher Credentials Fund within 60 days after the transfer was made, whatever portion of the amount received from the Test Development and Administration Account that is in the Teacher Credentials Fund at that time shall be returned to the Test Development and Administration Account. The remaining balance of the outstanding transfer, if any, shall be returned thereafter in monthly installments as moneys accumulate in the Teacher Credentials Fund. If the Teacher Credentials Fund fails to return the full amount of any transfer by the end of the fiscal year, the Teacher Credentials Fund shall be ineligible to receive further transfers until it has returned the full amount previously transferred from the Test Development and Administration Account.

SEC. 10. Section 44374.5 of the Education Code is amended to read:

44374.5. (a) The commission may charge ~~a fee~~ fees to ~~recover~~ cover the standard costs of reviewing new and existing educator preparation programs. ~~Applicable local educational agencies and institutions of higher education~~ Sponsors of educator preparation programs shall submit the established fee to the commission when submitting a proposal for a new ~~program.~~ program, and, as determined by the commission, for the review of an existing program. The commission shall not waive the fee for the review of existing programs for in-kind contributions from sponsors of educator preparation programs. The commission may review the established ~~fee~~ fees on a periodic basis and adjust the ~~fee~~ fees as necessary. The commission shall notify the chairpersons of the committees and subcommittees in each house of the Legislature that consider the State Budget and the Department of Finance at least 30 days before implementing the ~~fee~~ fees and at least 30 days before making any subsequent fee adjustments.
(b) The commission may charge commission-approved entities a fee to recover the costs of accreditation activities in excess of the regularly scheduled data reports, program assessments, and accreditation site visits. This includes, but is not necessarily limited to, accreditation revisits, addressing stipulations, or program assessment reviews beyond those supported within the standard costs of review. ~~Institutions of higher education~~ Sponsors of educator preparation programs shall submit the established fee to the commission in the year that the extraordinary

activities are performed. The commission may review the established fee on a periodic basis, and adjust the fee as necessary. The commission shall notify the chairpersons of the committees and subcommittees in each house of the Legislature that consider the State Budget and the Department of Finance at least 30 days before implementing the fee and at least 30 days before making any subsequent fee adjustments.