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## Information

### *Fiscal Policy and Planning Committee*

### Commission on Teacher Credentialing Budget

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**Executive Summary:** This agenda item provides an overview of the Commission's budget for the 2019-20 fiscal year, reviews the overall revenue and expenditure projections and presents one-time project expenditures.

**Recommended Action:** For information only

**Presenter:** Michele Perrault, Director, Administrative Services Division

#### Strategic Plan Goals

#### ***IV. Operational Effectiveness***

- b) Align human and financial resources with Commission priorities and offer staff opportunities for development to maximize professional engagement and performance.
- c) Demonstrate professionalism and accountability for high standards of practice in all Commission operations.

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# Commission on Teacher Credentialing Budget

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## **Introduction**

This agenda item provides an overview of the Commission's budget for the 2019-20 fiscal year, reviews the overall revenue and expenditure projections and presents one-time project expenditures.

## **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 spending priorities and impact a range of public services from the construction, maintenance, and operation of state highways, to provision of social services, the safeguarding of health and safety, 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.

The 2019-20 budget was signed by Governor Newsom on June 27, 2019 and funds were made available to state agencies beginning on July 1, 2019.

## **Commission 2019-20 Budget**

The Budget Act provided the Commission with a total appropriation of \$29.615 million for the 2019-20 fiscal year. Of that amount, the Act appropriates \$23.293 million from the Teacher Credentials Fund (TCF) and \$5.914 million from the Test Development and Administration Account (TDAA). The Commission has 153.6 staff positions authorized for the 2019-20 fiscal year.

The Act also provided \$408,000 in reimbursements. This includes \$308,000 to reimburse county

offices of education for teacher assignment monitoring and \$100,000 for Wallace Foundation grant funds received to support the work on the California Administrator Performance Assessment.

Approximately 79 percent of the Commission’s appropriated \$29.615 million operating budget is supported by credential fees, which are the primary revenue source for the TCF. Educator exam fees, which fund the TDAA, support a little less than 20 percent of the Commission’s budget and a little over one percent comes from the reimbursement funds. Unlike in years past, the Commission received no General Fund monies for one-time expenditures such as teacher recruitment, preparation and retention grants.

**Table 1: Budget Act Appropriation**

2019-20	TCF	TDAA	Reimbursement	Total
	\$23,293,000	\$5,914,000	\$408,000	\$29,615,000
% of Total	78.65%	19.97%	1.38%	

***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 \$29.615 million appropriation for 2019-20, the Governor’s Budget allocates \$17.651 million to Personal Services and \$11.964 million for OE&E. It should be noted that salary and wages are adjusted at the end of each fiscal year to account for any mid-year increases that may have occurred due to labor contract negotiations. When this occurs, the Commission’s overall expenditure authority is adjusted accordingly and funds from the reserve accounts are shifted to cover these increases.

Approximately \$7.084 million in OE&E will go to nondiscretionary operational costs that are largely outside the control of the Commission. These include \$5.539 million to the Office of the Attorney General to assist with discipline cases, \$310,000 for ongoing support of the accreditation system and a one-time allotment of \$1.235 million to develop the Special Education Teaching Performance Assessment. Personal Services and nondiscretionary OE&E constitutes about 84 percent of the Commission’s budget.

The remaining funds, (approximately \$4.881 million) 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 of these activities than it does nondiscretionary costs by deciding when and how often they occur.

**Table 2: Governor’s Budget Expenditure Authority**

2019-20	Operations	Nondiscretionary	Total Appropriation
Salaries & Wages		\$17,651,000	\$17,651,000
OE&E	\$4,881,000	\$7,084,000	\$11,964,000
Total	\$4,881,000	\$24,735,000	\$29,615,000
% of Total	16%	84%	

**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 the Governor’s 2019-20 budget proposal was released in January 2019 the projected revenues in the TCF were \$30.341 million from credential fees and revenues of \$6.065 million for the TDAA from exam fees.

**Table 3: Governor’s Budget Resource Projections**

2019-	TCF	TDAA	Total
Projected Beginning Balance (Reserve)	\$23,283,000	\$5,366,000	\$28,649,000
Projected Revenue	\$30,341,000	\$6,065,000	\$36,406,000
Total Projected Resources	\$53,624,000	\$11,431,000	\$65,055,000

The “point in time” projections included in the Governor’s Budget change over time because the projections are developed for the budget year (2019-20) during the middle of the previous year (2018-19). For example, the beginning balance and revenues in Table 3 reflect projections made in fall 2018 as Commission staff worked with DOF to develop the proposed 2019-20 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 in the beginning of fall.

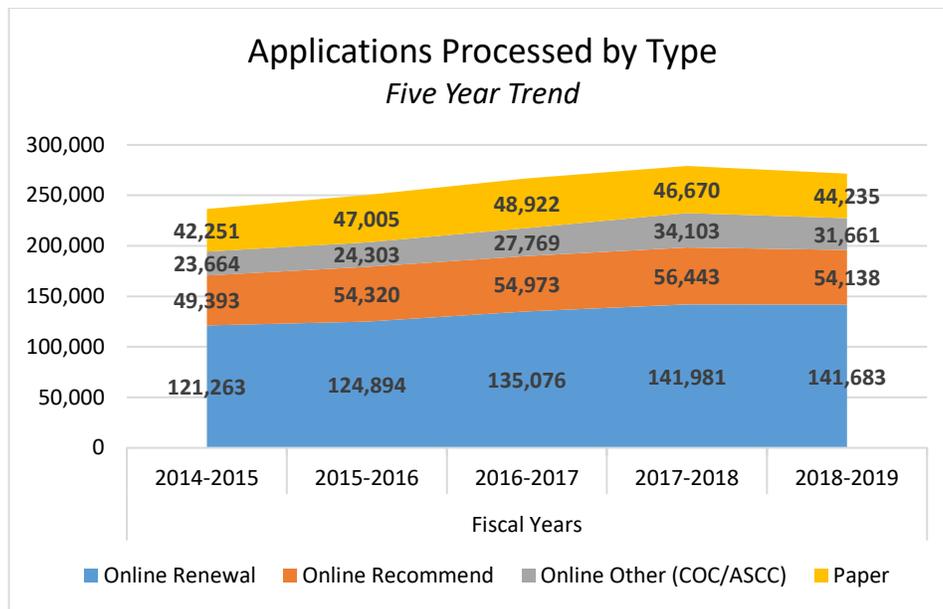
**Commission Reserves**

Current law requires the Commission to maintain reserves in each fund to address unanticipated fiscal liabilities and to ensure cash flow in any month when revenues are insufficient to pay that month’s expenditures (such as payroll). 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. A sufficient reserve helps protect the General Fund by ensuring that the Commission can operate without an emergency General Fund appropriation. Each year, the Commission’s reserve accounts are used to cover just over \$3.5 million for the Commission’s central administrative services (the Commission’s share of the state’s overhead expenses including the cost of the agency’s accounting services). Currently, the Commission has a healthy reserve. The TCF has a projected reserve of \$27.244 million and the TDAA has a projected reserve of \$5.046 million for the end of 2019-20.

**Credential Volume and Impact on Fiscal Forecast**

Commission staff anticipate much of the agency’s key work will have a fiscal impact in 2019-20 – some of this work is ongoing while several projects are one-time expenditures. This work, if not provided a special funding stream by the state budget, must be paid for out of the discretionary OE&E. It is critical that Commission staff monitor credential volume and exam fee revenue throughout the year to determine if it will reach the projected amount assumed in the Governor’s budget. The adopted state budget has provided a lower overall expenditure authority than the projected revenue between the TCF and TDAA funds allowing for financial flexibility if the credential and exam volumes are actually lower than was predicted.

As shown in the chart below credential volume has continued to stay steady and/or increase throughout the past five years with only a slight decrease in 2018-19.



**One-Time 2019-20 Expenditures**

Each year the Commission has one-time expenditures mainly associated with projects that create new or adapt current systems, processes and assessments that allow the agency to fulfill its mission. In 2019-20 the Commission anticipates the following one-time expenditures to impact its overall OE&E budget.

- *Special Education Teaching Performance Assessment - \$1.2 million* – Funding was provided as a one-time expenditure authority out of the TDAA account to support the development of a Special Education Teaching Performance Assessment. This will be the third performance assessment the Commission has created and/or updated in the past four years. This funding was above the normal operating authority provided.
- *Assignment Monitoring System Upgrade - \$70,000* – In order to enhance the newly created web-based assignment monitoring system to accommodate the monitoring of charter schools per legislative statute, the Commission was required to provide

additional OE&E funding to upgrade the CalSAAS system. This funding will be absorbed in the agency's current allocated OE&E budget.

- *Information Technology Security Assessment - \$60,000* – Every state agency is being required to undergo a security assessment to determine processes and policies in place to ensure the safety of information the agency has in its possession. This assessment is required and funding will be absorbed in the agency's current allocated OE&E budget.

### ***Future Costs Trends and Impacts***

*Temporary Staffing and Overtime* – As mentioned earlier, the Commission's discretionary OE&E budget is limited. Within this budget, the agency must manage all the items outside of personal services costs and non-discretionary OE&E, which includes temporary staffing and overtime costs.

Workload has increased steadily over the past several years in all divisions of the agency. With credential applications rising and more programs seeking to provide educator preparation programs, the Commission has continued to see an increase in the use of temporary staffing and overtime. In short, when an agency has workload needs it must address but has no more vacant permanent positions, temporary positions may be established and filled for up to two years. Costs for temporary staffing must come from discretionary OE&E. This also applies to the use of overtime. Current employees may be provided overtime, however the funding to pay for it comes from the Commission's discretionary OE&E. Each year the Department of Finance (DOF) determines an estimated amount that should be used for these types of expenses. Currently DOF has the Commission estimate at \$150,000. However, in 2018-19 the Commission used just over \$659,000 in temporary help and overtime. This is a significant percentage of the agency's small discretionary OE&E budget.

*Increased Accreditation Workload* – The Commission has also seen a spike in the number of institutions wishing to complete the Initial Institutional Approval process and provide preliminary educator preparation or induction programs. Over the past few years, the Commission went from receiving one new request every year or two to seeing an average of three institutions a year requesting to engage in the accreditation process. The Commission is monitoring these numbers in order to determine the fiscal impact associated with these increases. Without additional funding for either staffing or OE&E, the Commission could see a continued steady rise in accreditation costs associated with travel, trainings and the need to hire temporary staffing to meet the needs of the institutions seeking to provide new education preparation or induction programs.

*Office of the Attorney General Costs* – Currently, the Commission's budget provides \$5.539 million for 2019-20 out of the non-discretionary OE&E budget allocation to help support the Office of the Attorney General's (AG) disciplinary workload. This allocation has been in place each year since the 2015-16 budget. However, on average the AG is billing the Commission between \$3 and \$4 million each year for those services. The funding is a line-item appropriation and may not be used for any other purpose by the agency so the unused funds revert to the agency's reserve.

**Conclusion**

Commission revenues continue to remain steady and have increased slightly year-over-year as a result of a slow but steady increase in the number of applications received. The state budget allocation has also remained steady. The Commission continues to monitor workload trends as well as cost pressures to its discretionary OE&E budget particularly as it relates to the need for staffing and the continued use of temporary staffing and overtime. The Commission has a healthy reserve in both the TCF and TDAA accounts which provides a stable fiscal foundation for its ongoing work.

Commission staff will continue to work with the administration and the legislature to address the agency's staffing and operational needs.