

**ANNUAL REPORT TO THE LEGISLATURE  
ON THE SCHOOL EMPLOYEES FUND  
FOR STATE FISCAL YEAR 2012-13**

**Prepared by  
California Employment Development Department  
School Employees Fund Unit  
March 2014**

**ANNUAL REPORT TO THE LEGISLATURE ON THE  
SCHOOL EMPLOYEES FUND**

**(State Fiscal Year Ending June 30, 2013)**

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## EXECUTIVE SUMMARY

In accordance with Section 832, Division 1, Part 1, Chapter 3, Article 6 of the California Unemployment Insurance Code (CUIC), the Employment Development Department (EDD) is pleased to provide the Annual Report to the Legislature regarding the School Employees Fund (SEF) for the State Fiscal Year (SFY) that ended June 30, 2013. The SEF is a special reimbursable financing method available to school employers to pay their Unemployment Insurance (UI) costs. It is a joint, pooled-risk fund administered by the EDD, which collects contributions from school employers participating in the SEF. Money deposited in the SEF is used to reimburse the California UI Trust Fund for the cost of UI benefits paid to former employees of those school employers. This report provides a financial summary for SFY July 1, 2012, through June 30, 2013, of economic activities that affected the SEF during the SFY, and recommendations to ensure the adequacy of funds.

The highlights of this report are:

- As of June 30, 2013, the SEF ended with a fund balance of \$662.5 million. This represents an increase in the fund balance of \$247.9 million when compared to SFY 2011-12, which ended with a fund balance of \$414.6 million. The increase in the SFY 2012-13 fund balance is attributed to the contribution rate of 1.10 percent remaining relatively high as benefit charges paid continue to decrease. For a definition of UI contribution rate, refer to the Glossary, Appendix C.
- The SEF revenue during SFY 2012-13 totaled \$458.6 million, which represents a decrease of \$211.4 million (32 percent) when compared to the \$670.0 million in total revenue collected during SFY 2011-12. This decrease in revenue is due to the lower contribution rate of 1.10 percent from 1.61 percent in the prior year.
- The Local Experience Charge (LEC) generated revenue during SFY 2012-13 of \$20.5 million, which represents a decrease of \$5.3 million (21 percent) compared to \$25.8 million in SFY 2011-12. The decrease is a result of teacher layoffs being the lowest since the recession started. For a definition of LEC, refer to the Glossary, Appendix C.
- Additional revenue is generated from penalties and interest paid by school employers, and Surplus Money Investment Fund interest earned on deposits made into the SEF. The revenue received from penalty and interest charges assessed to the school employers totaled \$0.2 million during SFY 2012-13, a decrease of \$0.2 million (50 percent) compared to \$0.4 million earned in SFY 2011-12. The interest revenue from the Surplus Money Investment Fund increased by \$1.0 million (250 percent) to total \$1.4 million in SFY 2012-13, compared to \$0.4 million in SFY 2011-12. The average Surplus Money Investment Fund apportionment yield during the SFY 2012-13 was 0.296 percent compared to 0.372 percent in the prior SFY 2011-12. For a definition of penalty and interest and the Surplus Money Investment Fund, refer to the Glossary, Appendix C.

- The SEF's total disbursements were \$210.7 million in SFY 2012-13 compared to \$262.2 million in SFY 2011-12, a decrease of \$51.5 million (20 percent) from the prior fiscal year. The SEF's major disbursement is to reimburse California's UI Trust Fund for benefits paid to former school employees.
- During SFY 2012-13, a total of \$208.2 million in UI benefits were paid to former school employees compared to the total of \$259.7 million in UI benefits paid during the SFY 2011-12, a decrease of \$51.5 million (20 percent). As the economy becomes more stable, UI benefit charges are expected to continue to decline.
- Other expenses include the SEF's administrative and operational costs and claims management fees. The administrative cost to operate the SEF totaled \$0.7 million during SFY 2012-13 and \$0.7 million in SFY 2011-12. The cost remained the same as the prior year. The claims management fees paid amounted to \$1.8 million. The claims management fees remain the same as last year. For a definition of the claims management fees, refer to the Glossary, Appendix C.
- The SEF UI contribution rate for SFY 2013-14 was calculated at 0.05 percent. This UI contribution rate will provide sufficient revenue for the SEF to meet its estimated financial obligations for SFY 2013-14.

## INTRODUCTION

The Annual Report to the Legislature provides comments and recommendations on the administration of the School Employees Fund (SEF) as of June 30, 2013, and includes the SEF operations and financial condition for the SFY 2012-13 as mandated by the California Unemployment Insurance Code (CUIC), Division 1, Part 1, Chapter 3, Article 6, Section 832.

In 1978, the Unemployment Insurance (UI) coverage was extended to all public entities. Public school employers, kindergarten through 12th grades, and community colleges were given the option to finance their UI costs by participating in the SEF, as authorized in the CUIC, Section 821. The method to finance the UI costs under the SEF program is traditionally less costly for school employers than electing to finance the UI costs under the tax-rated method, which is required for private-sector employers, or the direct reimbursable method that other public and nonprofit entities may select to pay their UI costs. The direct reimbursable method that public entities may opt to use requires repayment of all UI benefits paid to former employees on a dollar-for-dollar basis.

The SEF is a joint, pooled-risk fund administered by the State of California's Employment Development Department (EDD). The EDD collects quarterly contributions from all school employers participating in the SEF. The quarterly contributions are based upon the total wages paid to school employees by each school employer multiplied by the statutorily set UI contribution rate.

The SEF employer may also have to pay a quarterly Local Experience Charge (LEC) on the UI benefits paid to former school employees. All monies collected are deposited into the SEF and are used to reimburse California's UI Trust Fund for the cost of UI benefits paid to former school employees. Additional revenues to the SEF are generated from penalties and interest collected from employers and interest earned on the SEF deposits.

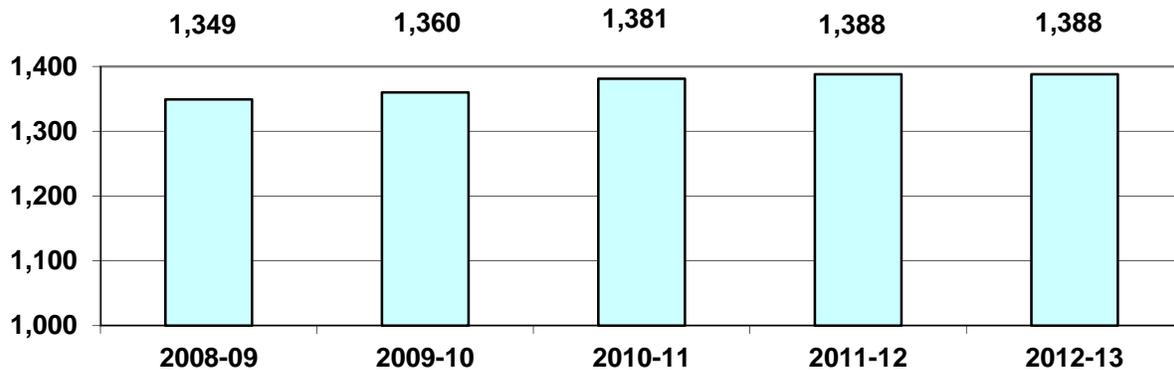
The SEF includes California's 72 community college districts and 1,316 public schools, which include County Offices of Education and charter schools, that choose to participate in the SEF. In SFY 2012-13, participating school employers paid wages in excess of \$38.8 billion. This represents a decrease of \$0.4 billion from the \$39.2 billion in total wages paid during SFY 2011-12.

During SFY 2012-13, the participating school employers had a total of 882,320 school employees compared to 898,896 school employees in the prior fiscal year. This represents a decrease of 16,576 employees (1.8 percent).

## Participating School Employers

Figure 1 displays the SEF participant's growth over the past five SFYs.

Figure 1



## SCHOOL EMPLOYER ADVISORY COMMITTEE

The School Employer Advisory Committee (SEAC) was created pursuant to the CUI, Section 831. The SEAC consists of five members who meet at least semi-annually with the EDD administrator to consider and recommend improvements in the administration of the SEF. The State Superintendent of Public Instruction, the Chancellor of the California Community Colleges, the Association of California School Administrators, the California Association of School Business Officials, and the California School Boards Association each appoint one member to the SEAC. For a listing of the names and addresses of current SEAC representatives, see Appendix B.

Serving under the direction of the SEAC is the UI Technical Subcommittee. Its membership consists of representatives from the school employer community throughout the state and representatives from the EDD. The UI Technical Subcommittee works in conjunction with the SEAC to discuss the condition of the SEF and provides outreach and assists school employers in managing UI costs.

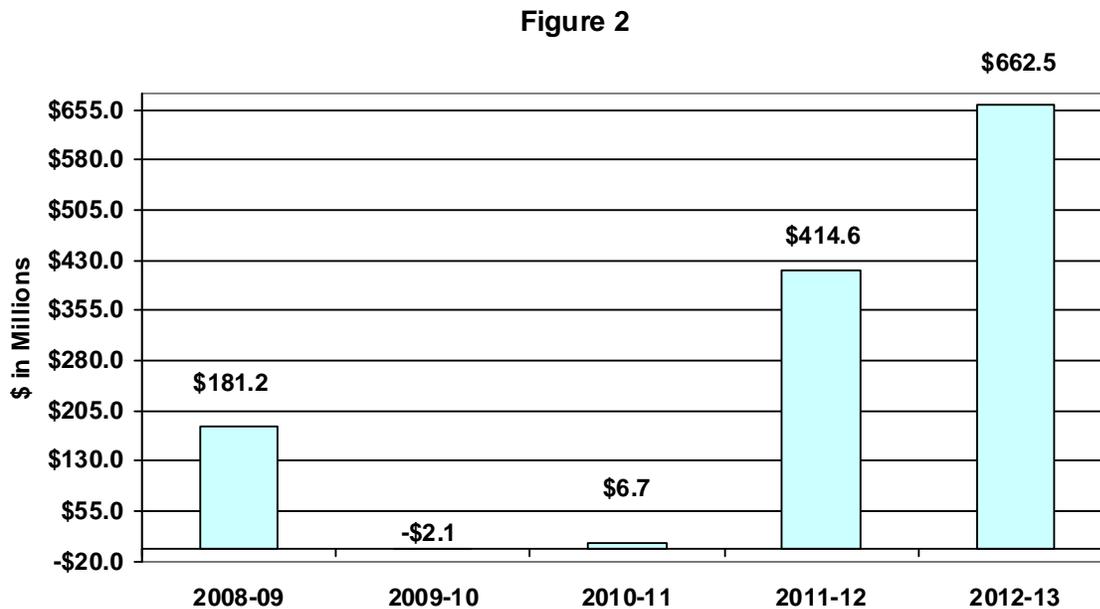
## UNEMPLOYMENT INSURANCE SEMINARS FOR SCHOOL EMPLOYERS

During SFY 2012-13, the SEAC and UI Technical Subcommittee held seminars in Ontario and Los Angeles on October 23, 2012, and October 24, 2012 respectively, and in Sacramento on March 5, 2013. The seminars focused on UI claims management practices for the school employers to help control their UI costs.

## FINANCIAL CONDITION OF THE SCHOOL EMPLOYEES FUND

### School Employees Fund Balance

On June 30, 2013, the SEF ended SFY 2012-13 with a fund balance of \$662.5 million. This represents an increase in the fund balance of \$247.9 million when compared to SFY 2011-12, which ended with a fund balance of \$414.6 million. Figure 2 reflects the SEF's ending fund balances as of June 30 for the past five SFYs.



### Total Fund Revenue

Total SEF revenue is generated from the quarterly UI contributions, LEC, penalties and interest assessed on school employers, interest income received from the Surplus Money Investment Fund, and prior year adjustments. For a definition of UI contributions, LEC, penalty and interest, and prior year adjustment, refer to the Glossary, Appendix C.

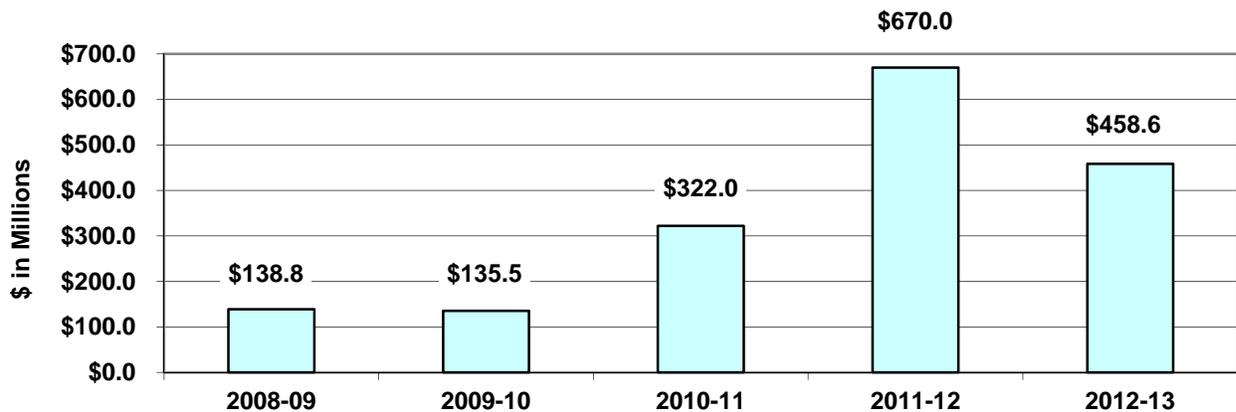
The revenue generated from UI contributions totaled \$413.6 million in SFY 2012-13, and reflects a decrease of \$205.5 million (33 percent), compared to \$619.1 million in SFY 2011-12. The LEC revenue collected from school employers totaled \$20.5 million in SFY 2012-13, compared to \$25.8 million collected during SFY 2011-12 (see Appendix A3), which is a decrease of \$5.3 million (21 percent). Since UI benefits have decreased, the participants' LEC ranks have shifted to a lower LEC rate causing a decrease in revenue. The lower contribution rate of 1.10 percent for SFY 2012-13 from 1.61 percent in the prior SFY has also contributed to the decrease in revenue.

The revenue received from penalty and interest charges assessed to SEF employers totaled \$0.2 million (see Appendix A3), during SFY 2012-13. This is a decrease of \$0.2 million (50 percent) compared to \$0.4 million earned in SFY 2011-12.

The interest income from the Surplus Money Investment Fund increased by \$1.0 million (250 percent) to total \$1.4 million in SFY 2012-13, compared to \$0.4 million in SFY 2011-12 (see Appendix A3). The average Surplus Money Investment Fund apportionment yield during the SFY 2012-13 was 0.296 percent compared to 0.372 percent in the prior SFY 2011-12.

The SEF's total revenue was \$458.6 million for SFY 2012-13. This is a decrease of \$211.4 million (32 percent) compared to the total revenue of \$670.0 million for the SFY 2011-12 (see Appendix A3). Figure 3 displays the total SEF revenue collected during the past five SFYs.

**Figure 3**



### **Unemployment Insurance Contribution Rates**

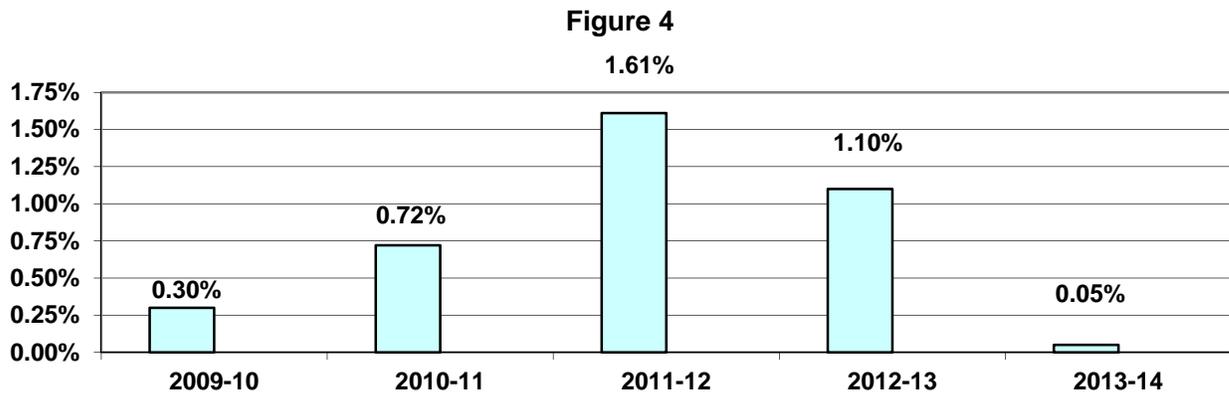
Regarding the Contribution Rate, the CUIC, Section 823(b)(2), states:

“The contribution rate for the fiscal year beginning July 1, 1988, and for each subsequent fiscal year shall be two times the amount disbursed for claims management fees, unemployment insurance benefit charges, and School Employees Fund administrative expenditures from the School Employees Fund during the 12-month period ending December 31 and immediately preceding the fiscal year for which the rate is to be effective, less the amount in the School Employees Fund on that December 31, with the resulting figure divided by total wages as described in paragraph (1) for the 12-month period ending June 30 and immediately preceding that December 31, and then rounded to the nearest one-hundredth of 1 percent. In no event shall the contribution rate be less than five one-hundredths of 1 percent.”

The UI contribution rate for school employers was calculated at 0.05 percent for SFY 2013-14. This lower UI contribution rate will provide sufficient revenue for the SEF to meet its estimated financial obligations for SFY 2013-14.

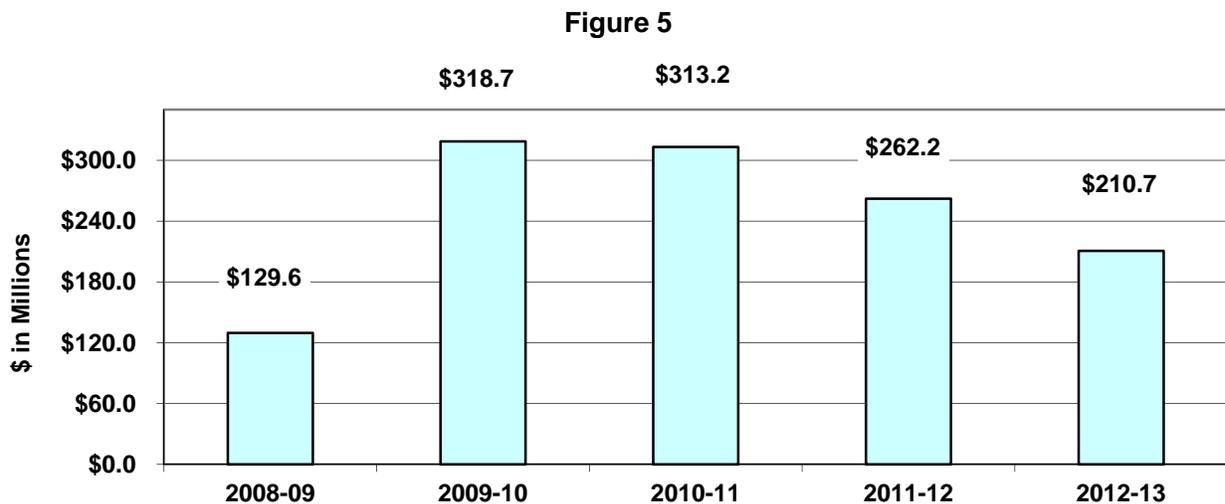
The UI contribution rate is set annually for the subsequent SFY. Each SEF participant is notified of the rate by March 31.

Figure 4 displays the contribution rates for the last five SFYs.



### Total Fund Disbursements

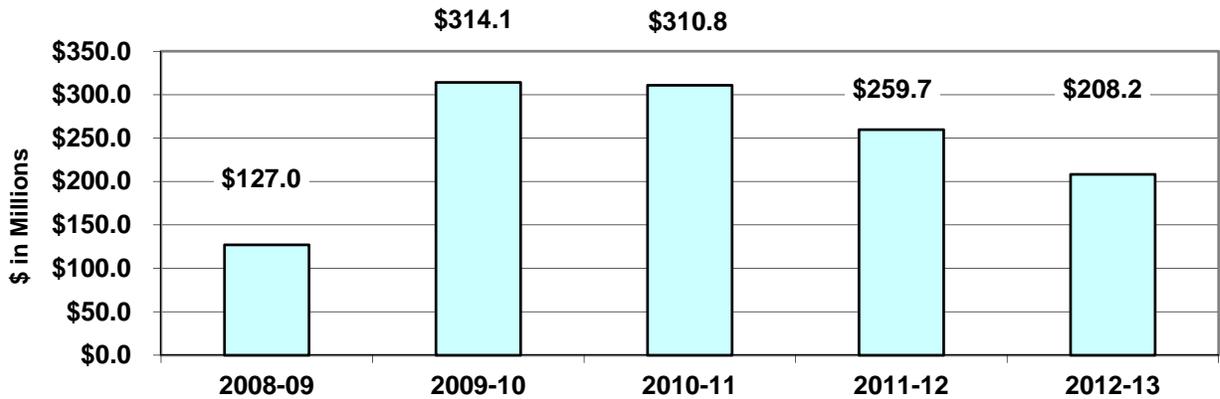
The SEF's total disbursements were \$210.7 million during SFY 2012-13. This is a decrease of \$51.5 million (20 percent) compared to \$262.2 million in SFY 2011-12 (see Appendix A3). The expenditures include repayment to California's UI Trust Fund for UI benefits paid to former school employees, administrative costs, claims management fees, and prior year adjustments. Figure 5 displays the total disbursements for the last five SFYs.



## Total Benefits Paid

The total UI benefits paid to former school employees was \$208.2 million during SFY 2012-13. This represents a decrease of \$51.5 million (20 percent) when compared to \$259.7 million in SFY 2011-12 (see Appendix A3). The decrease in benefits paid is attributed to a variety of factors, including the November 2012 tax initiatives, a more steady economy, and claimants exhausting their UI benefits. As UI benefits return back to normal historical levels, school budgets will stabilize and UI benefits should continue to decline. Figure 6 displays the total UI benefits paid to former school employees during the past five SFYs.

Figure 6



## LEGISLATION

The school employer community closely monitors legislative bills which may impact the UI program with the possible enactment of new laws, provisions, and policies. During SFY 2012-13, the school employers focused on several key bills.

- On January 2, 2013, President Obama signed the *American Taxpayer Relief Act of 2012* (House of Representatives Bill 8, 112th Congress). This bill extended the effective date for filing the federal Emergency Unemployment Compensation extensions until late December 2013. The federal extensions are entirely funded by the federal government.
- The forced federal spending cuts, known as “sequestration,” affected federal Emergency Unemployment Compensation benefits effective April 28, 2013. There was a 17.69 percent cut to the weekly benefit amount and maximum benefit amount. The sequestration cuts did not affect regular UI benefits.

## **RECOMMENDATION**

For SFY 2013-14, the SEF UI contribution rate was calculated at 0.05 percent. The new rate will generate sufficient revenue to meet the estimated financial obligations for SFY 2013-14.

## **QUESTIONS AND COMMENTS**

Any questions, comments, or suggestions concerning the administration of the SEF should be directed to the SEF staff at 916-653-5380.

**APPENDIX A**

**FINANCIAL STATEMENTS**

**FINANCIAL STATEMENTS**

**Statement 1**

**STATEMENT OF ACTIVITY  
STATE FISCAL YEAR 2012-13**

***ACCRUAL BASIS***

Revenue

Contributions	\$413,598,654.43	
Local Experience Charges	\$20,491,369.14	
Penalty and Interest	\$211,817.55	
Other Revenue	\$7.87	
Interest Income	\$1,408,216.91	
Prior Year Appropriation Adjustment*	\$9,808,814.97	
Prior Year Revenue Adjustment*	\$13,114,303.38	
Total Revenue		\$458,633,184.25

Disbursements

Benefit Charges Repaid to UI Fund	\$208,235,348.22	
SEF Administrative Costs	\$735,321.10	
Claims Management Fees Paid	\$1,764,639.00	
Prior Year Adjustment*	\$0.00	
Prior Year Benefit Appropriation Adjustment*	\$0.00	
Total Disbursements		\$210,735,308.32

Net Increase in Fund \$247,897,875.93

\* Entry required at the end of the fiscal year for accrual of revenue and disbursement items.

Amounts Repaid to the Unemployment Insurance Fund

<u>Quarters</u>	<u>Number of Claims Filed</u>	<u>Cost of Benefits</u>
3rd Quarter 2012	49,230	\$89,174,256
4th Quarter 2012	26,919	\$43,436,427
1st Quarter 2013	28,609	\$36,624,665
2nd Quarter 2013**	28,000	\$39,000,000
		<u>\$208,235,348</u>

\*\* *Estimated Data*

**STATEMENT OF RECEIPTS  
AND DISBURSEMENTS  
SEPTEMBER 1972 THROUGH JUNE 2013**

Revenue

Contributions	\$2,932,278,598.31	
Local Experience Charges	\$163,653,475.91	
Penalty and Interest	\$2,617,096.00	
Interest Income	\$119,286,663.66	
Total Revenue		\$3,217,835,833.88

Disbursements

Benefit Charges Repaid to UI Fund	\$2,377,115,987.87	
Local Assistance Special Pro-Rata	\$343,794.00	
Accrued Penalty and Interest	\$2,007,962.97	
Court-Ordered Interest Payments	\$1,764.27	
SEF Administrative Costs	\$20,977,130.90	
Fund Transfer*	\$98,800,000.00	
Claims Management Fees	\$56,062,621.00	
Total Disbursements		\$2,555,309,261.01

Net Fund Balance

\$662,526,572.87

\*Transferred to General Fund through Budget Acts of 1986 and 1988.

The Statement of Receipts and Disbursements is prepared on the accrual basis. As of June 30, 2013, outstanding liabilities for local assistance (benefits) totaled \$39 million.

	Accrued Disbursements
Second Quarter of 2013 Estimated Benefit Charges for year-end.	\$39,000,000.00

## Statement 3

**COMPARATIVE STATEMENT OF FUND CONDITION  
FOR THREE FISCAL YEARS ENDING JUNE 30, 2013  
ACCRUAL BASIS (\$ in thousands)**

	2010-11	2011-12	2012-13
Beginning Fund Balance	(\$2,067)	\$6,732	<b>\$414,628</b>
<u>Revenue</u>			
Contributions	\$277,926	\$619,129	\$413,599
Local Experience Charge	\$19,031	\$25,776	\$20,491
Penalty and Interest	\$479	\$432	\$212
Interest Income	\$127	\$441	\$1,408
Prior Year Adjustment	\$24,439	\$24,269	\$22,923
Total Revenue	<u>\$322,002</u>	<u>\$670,047</u>	<u><b>\$458,633</b></u>
<u>Disbursements</u>			
Benefit Charges Repaid	\$310,836	\$259,669	\$208,235
Pro-Rata	\$0	\$0	\$0
SEF Administrative Costs	\$590	\$684	\$735
Claims Management Fees	\$1,777	\$1,798	\$1,765
Prior Year Adjustments	\$0	\$0	\$0
Prior Year Benefit			
Appropriation Adjustment	\$0	\$0	\$0
Total Disbursements	<u>\$313,203</u>	<u>\$262,151</u>	<u><b>\$210,735</b></u>
<u>Ending Fund Balance *</u>	<u><u>\$6,732</u></u>	<u><u>\$414,628</u></u>	<u><u><b>\$662,526</b></u></u>

\* Components may not add up to totals, due to rounding.

**APPENDIX B**

**SCHOOL EMPLOYER ADVISORY COMMITTEE**

## SCHOOL EMPLOYER ADVISORY COMMITTEE

### Members

**DR. HAROLD L. BORING, Chair**

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Fax: 951-784-4058  
E-mail: dr5323@sbcglobal.net

**MS. ZANDRA BLACK, Vice-Chair**

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Fax: 916-327-6157  
E-mail: zblack@cde.ca.gov

**MR. WILLIAM (BILL) DALRYMPLE**

Fax: 209-529-3931  
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**MS. SONDR A DOUGHERTY**

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951-816-7493  
E-mail: dougherty.sondra51@gmail.com

**MR. DARREL WOO**

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5735 47th Avenue  
Sacramento, CA 95824  
916-643-7400 Ext. 9314  
E-mail: Darrel-Woo@sac-city.k12.ca.us

### Representing

Association of California School  
Administrators (ACSA)

ACSA Ontario Office  
3602 Inland Blvd, Suite A-230  
Ontario, CA 91784

State Superintendent of Public Instruction  
(SSPI)

Chancellor of the California  
Community Colleges (CCCC)

California Association of School Business  
Officials (CASBO)

California School Board Association  
(CSBA)

## **APPENDIX C**

## **GLOSSARY**

## **GLOSSARY**

*Benefits:* The UI compensation payable to a former school employee, with respect to his or her unemployment, under the unemployment compensation law of any state or federal government.

*Benefit Charges:* The UI benefit charges reflected in the financial statements are the UI benefits paid during the period of July 1 through June 30 that are repaid to the California UI Trust Fund. All benefit charges paid from the SEF are considered a disbursement (expense).

*Claims Management Fees:* Two dollars (\$2) per covered employee, provided from available interest earnings from the SEF investments (less state administrative costs), is annually apportioned to the State Superintendent of Public Instruction or the Chancellor of the California Community Colleges for the administration of the UI management system.

*Experience:* A SEF participant must be in the Fund for more than three full SFYs to increase his or her reserve account in the SEF, so that in the fourth SFY, the LEC rate is calculated based on the experience of the school employer's relative usage of the UI fund (UI benefit charges). All fund participants are notified by March 31 of their LEC rate as required by the CUIIC, Section 828(c).

*Fund Participants:* This term is used to refer to the school employers who have elected to participate in the SEF to finance their UI taxes.

*Interest Income:* Interest is deposited quarterly into the SEF based on the SEF balance with the State Treasury, times the rate set by the Surplus Money Investment Fund.

*Local Assistance Pro Rata:* The Local Assistance Pro Rata is charged by the Department of Finance. Pro Rata is the recovery of central service administrative costs from special and non-governmental cost funds. The State of California provides certain services (central administrative agencies), such as accounting, computing, payroll services, banking, etc., to operating agencies (departments) on a centralized basis. Pro Rata is a process that identifies these central service administrative costs and assigns them to benefited activities (functions) on a reasonable and consistent basis.

*Local Experience Charge:* As mandated in the CUIIC, Section 828, each school employer in the SEF shall be responsible for a quarterly LEC based on their LEC rate. The LEC is *in addition* to the quarterly contributions paid by the fund participants. The participant's individual LEC amount due is calculated by multiplying the employer's quarterly UI benefit charges times the fund participant's LEC rate. The LEC payment is due to the EDD 30 days after the mail date of the form *Notice of Amount Due* (DE 6601).

*Local Experience Charge Rate:* The LEC rate is calculated annually for the SFY July 1 through June 30. The LEC percentage is varied for each fund participant as listed below:

- 15 percent (ratio = negative < 1.00)
- 10 percent (ratio = 1.00 < 2.00)
- 5 percent (ratio = 2.00 < 3.00)
- 0 percent (ratio = 3.00 or more)

The LEC ratio is calculated by the fund participant's ending cumulative balance divided by the UI benefit charges. All fund participants are notified by March 31 of their individual LEC rates for the succeeding fiscal year as required by the CUIC, Section 828(c). Additionally, Section 828(a) mandates that new SEF participants are subject to a 10 percent LEC rate for the first three complete fiscal years.

*Penalty and Interest:* Penalty and interest are assessed to fund participants by the administrator of the SEF for delinquent payments and/or forms and errors. Interest is calculated daily until paid. The funds collected for penalty and interest are deposited in the SEF and are considered revenue.

*Prior Year Adjustment:* The Prior Year Adjustment is an entry to the account at the end of the fiscal year for financial statement preparation purposes required for accrual of revenue and expense items. The Prior Year Adjustment is any revenue collected or disbursed in the current SFY and tied to a prior period other than the current SFY.

*School Employees Fund Administrative Costs:* The SEF Administrative Costs are the cost of resources and tools necessary to effectively operate the SEF program.

*Surplus Money Investment Fund:* Interest on investments of the Surplus Money Investment Fund is apportioned to other funds quarterly by the State Controller's Office per the Government Code, Section 16475. The administering agency for the funds receiving interest will receive the State Controller's Office Notice of Transfer posting the interest in the month following the end of the quarter. Agencies will account for the interest as revenue or operating revenue in the applicable funds.

*Unemployment Insurance Contributions:* Each fund participant files documents and pays quarterly contributions which are deposited into the SEF as required by the CUIC, Section 823(b)(1). The quarterly amount owed is calculated by multiplying the total wages times the contribution rate which is set for the SFY (see Contribution Rate definition below). The contributions paid by the fund participants are considered revenue and are deposited in the SEF to reimburse the California UI Trust Fund for UI benefits paid to former school employees.

*Unemployment Insurance Contribution Rate:* The contribution rate is calculated annually for the SFY July 1 through June 30. The contribution rate is the same for all fund participants. As required by the CUIC, Section 823(b)(1), all fund participants are notified by March 31 of the set contribution rate for the succeeding fiscal year.