

**ANNUAL REPORT TO THE LEGISLATURE
ON THE SCHOOL EMPLOYEES FUND
FOR STATE FISCAL YEAR 19/20**

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

March 2021

**ANNUAL REPORT TO THE LEGISLATURE
ON THE SCHOOL EMPLOYEES FUND
State Fiscal Year Ending June 30, 2020**

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March 31, 2021

The Honorable Members of the California State Legislature
California State Senate and Assembly
State Capitol
Sacramento, CA 95814

Dear Members of the California State Legislature:

In accordance with Section 832 of the California Unemployment Insurance Code, 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, 2020. This report provides a financial summary of economic activities that affected the SEF during the SFY 2019/20.

- As of June 30, 2020, the SEF had a fund balance of \$211.5 million. This represents a decrease of \$100.4 million compared to the prior year.
- The SEF revenue during SFY 19/20 totaled \$41.3 million, which represents a decrease of \$0.2 million (0.48 percent) when compared to the prior year.
- During SFY 19/20, a total of \$237.3 million in UI benefits were paid to former employees compared to \$87.8 million during SFY 18/19. The increase of \$149.5 million (170 percent) in benefits is attributed to the sharp increase in benefits paid due to the pandemic.
- The SEF UI contribution rate for SFY 20/21 was set at 0.05 percent by statutory formula.

Printed copies of this report are available to any legislative member upon request. The report can also be viewed online at www.edd.ca.gov/About_EDD/EDD_Legislative_Reports.htm.

Sincerely,

/s/ RITA SAENZ
Director

EXECUTIVE SUMMARY

In accordance with Section 832 of the California Unemployment Insurance Code, the Employment Development Department (EDD) is providing the Annual Report to the Legislature regarding the School Employees Fund (SEF) for the State Fiscal Year (SFY) that ended June 30, 2020. This report provides a financial summary of economic activities that affected the SEF during SFY 2019/20 and recommendations to ensure the adequacy of funds.

The SEF is a reimbursable financing method available to public school employers to pay their Unemployment Insurance (UI) costs. The SEF is a joint, pooled-risk fund administered by the EDD. Money deposited in the SEF reimburses the UI Fund for the cost of UI benefits paid to former or furloughed employees of SEF participants.

The coronavirus 2019 (COVID-19) pandemic caused a significant increase in UI claims. In order to mitigate the impact to employers who reimburse the UI fund for benefits, federal relief was provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act (Pub. L. 116-136), Protecting Nonprofits from Catastrophic Cash Flow Strain Act of 2020 (Pub. L. 116-151), Continued Assistance for Unemployed Workers Act of 2020 (Pub. L. 116-260), and American Rescue Plan Act of 2021 (Pub. L. 117-2). The federal law allowed a 50 percent credit for UI benefit charges for benefit weeks between March 13, 2020, and April 3, 2021, and will allow a 75 percent credit for UI benefit charges for benefit weeks between April 4, 2021, and September 4, 2021. The credit applied to SEF for SFY 19/20 was \$84.5 million. Although the impact to the SEF was significant due to the pandemic, the impact would have been much greater without the federal relief.

This report provides the SEF financial summary for SFY 19/20¹:

- As of June 30, 2020, the SEF balance was \$211.5 million. This represents a decrease of \$100.4 million (32.2 percent) compared to the SFY 18/19 ending balance of \$311.9 million. The fund balance decreased due to the surge in benefits paid as a result of the COVID-19 pandemic.
- Total revenue was \$41.3 million for SFY 19/20. This is a decrease of \$0.2 million (0.48 percent) compared to the total revenue of \$41.5 million for SFY 18/19.
- During SFY 19/20, a total of \$237.3 million in UI benefits were paid to former employees compared to \$87.8 million during SFY 18/19. The increase of \$149.5 million (170 percent) in benefits is attributed to the sharp increase in benefits paid due to the pandemic.
- Claims management fees and administrative costs to operate the SEF totaled \$2.8 million in SFY 19/20, a decrease of \$0.1 million (3.4 percent) compared to \$2.9 million in SFY 18/19.
- The SEF UI Rate for SFY 20/21 was set at 0.05% by statutory formula.
- As a result of the magnitude and duration of the pandemic, the increase in benefit charges will negatively impact the SEF UI contribution rate in SFY 21/22.

¹ Figures provided in this report are estimates due to unavailability of official closing statements.

- The SEF contribution rate for SFY 21/22 is 1.23%. At this time, it is anticipated that the contribution rate of 1.23% will generate sufficient revenue to restore the fund reserve before the end of SFY 21/22. In the event this occurs, CUIC section 823(c) provides the Director, in consultation with the fund's School Employer Advisory Committee, the authority to decrease the contribution rate.
- The EDD recognizes the impact that COVID-19 has had on the SEF participants, and some have raised concerns regarding potential improper UI benefit payments in 2020. The EDD will be investigating the 2020 UI benefits claims, and any overpayments established and collected will be credited back to the SEF and reflected in the participant's reserve account.

INTRODUCTION

The Annual Report to the Legislature provides comments and recommendations on the administration of the School Employees Fund (SEF) as of June 30, 2020. This report includes the SEF operations and financial condition for SFY 19/20 as mandated by the California Unemployment Insurance Code (CUIC) Section 832.

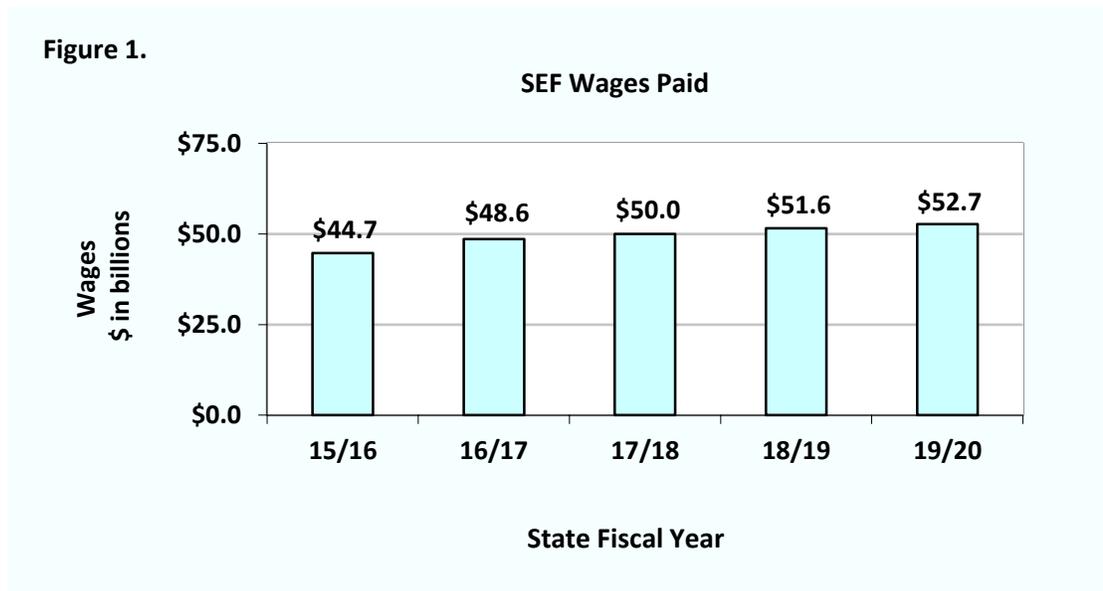
In 1972, the Classified School Employees Fund was established per CUIC Article 6 to provide Unemployment Insurance (UI) coverage for public school employers. In 1978, this coverage was extended to all public entities, and the SEF was established as a joint, pooled-risk fund administered by the State of California. 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 CUIC Section 821. Financing UI costs under the SEF program is less costly for school employers than the tax-rated method (required for private-sector employers).

The Employment Development Department (EDD) collects quarterly contributions and Local Experience Charges (LEC) from SEF employers. Revenue collected is used to reimburse the California UI Fund for the cost of UI benefits paid to former school employees. Employer paid penalty and interest and earned interest on deposits in the Surplus Money Investment Fund (SMIF) provide additional revenue for the SEF.

PARTICIPATING SCHOOL EMPLOYERS

The SEF participants include California’s 72 community college districts and 1,335 public schools, County Offices of Education, and charter schools. SEF participants employed 987,332 employees in SFY 19/20 compared to 971,449 in the prior SFY, an increase of 15,883 employees (1.6 percent).

In SFY 19/20 participating school employers paid wages in excess of \$52.7 billion, compared to \$51.6 billion during the SFY 18/19.² This represents an increase of \$1.1 billion (2.1 percent). Figure 1 displays the growth in SEF wages paid over the last SFYs.



SCHOOL EMPLOYER ADVISORY COMMITTEE

The School Employer Advisory Committee (SEAC) was created pursuant to Section 831 of the CUIA. 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 California State Superintendent of Public Instruction, California Community Colleges Chancellor’s Office, Association of California School Administrators, California Association of School Business Officials, and California School Boards Association each appoint one member to the SEAC.

Serving under the direction of the SEAC is the UI Technical Subcommittee (UIITS). Its membership consists of representatives from California’s school employer community and the EDD. The UI Technical Subcommittee works in conjunction with the SEAC to discuss SEF’s financial condition, provide outreach, and assist school employers in managing UI costs. See Appendix G for a list of SEAC representatives.

² SFY 15/16 data is from April through March. Data for SFY 16/17 and forward is from July through June.

Unemployment Insurance Seminar for School Employers

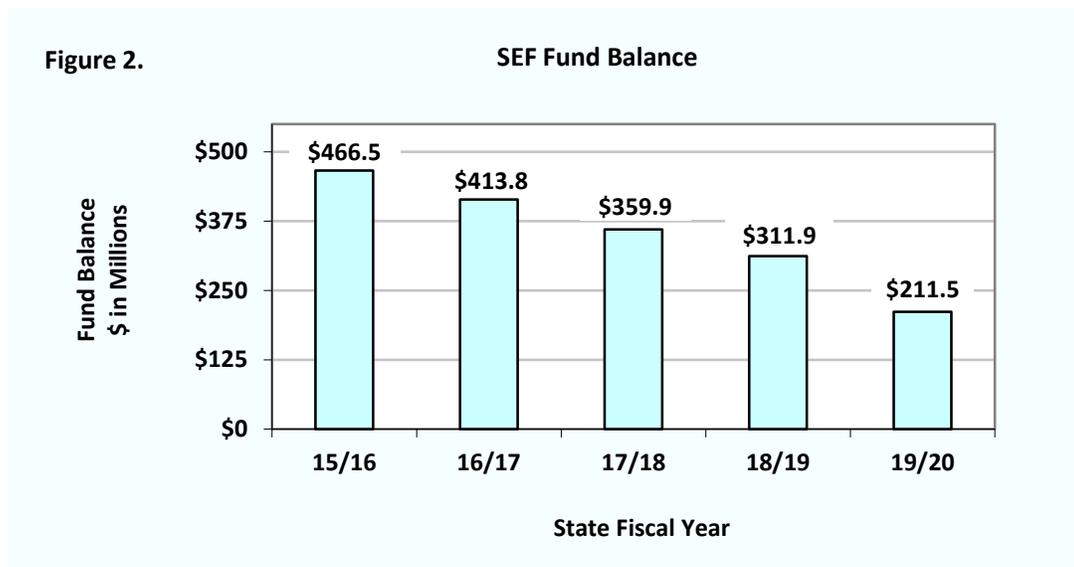
The SFY 19/20 SEAC/UITs UI seminar was held in Santa Clara on October 29, 2019. The seminar focused on UI claims management practices for school employers to help manage UI costs.

FINANCIAL CONDITION OF THE SCHOOL EMPLOYEES FUND

Fund Balance

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (Pub. L. 116-136), Protecting Nonprofits from Catastrophic Cash Flow Strain Act of 2020 (Pub. L. 116-151), and Continued Assistance for Unemployed Workers Act of 2020 (Pub. L. 116-260) provided a 50 percent credit of benefits paid. Since the SEF reimburses the Unemployment Insurance (UI) fund for benefit charges, this 50 percent credit was applied to the SEF. The credit applied for SFY 19/20 was \$84.5 million.

The SEF ended SFY 19/20 with a fund balance of \$211.5 million, a decrease of \$100.4 million (32.2 percent) decrease from the prior SFY 18/19 balance of \$311.9 million. Figure 2 reflects the ending fund balances as of June 30 for the past five SFYs.



Revenue

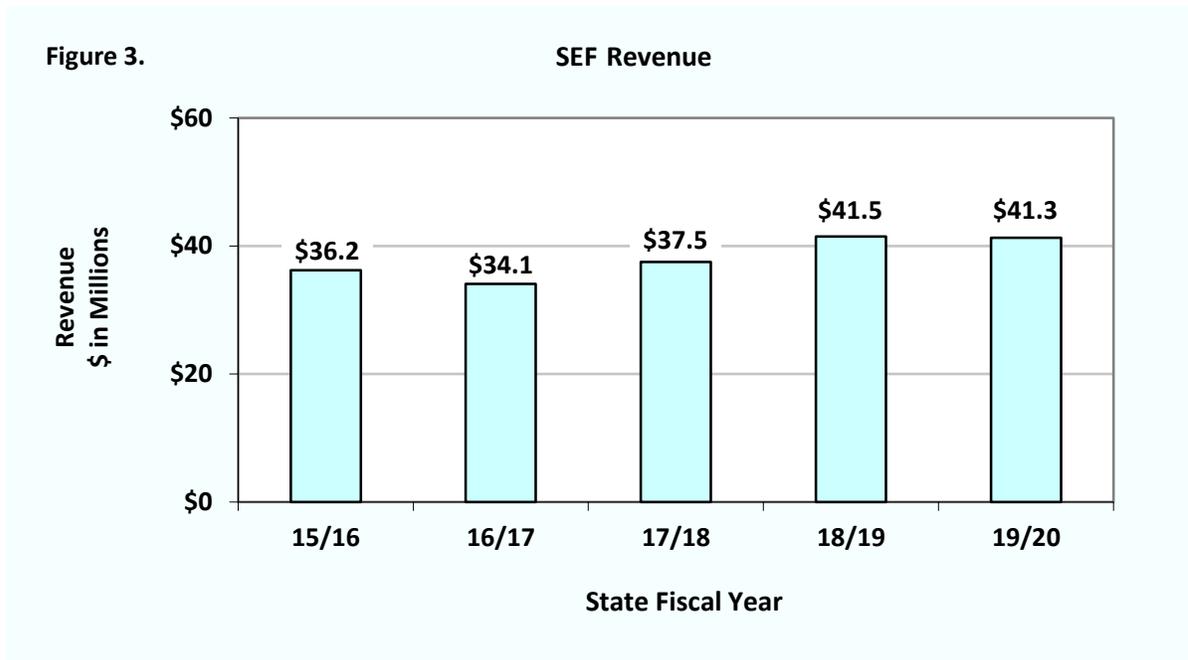
SEF revenue is generated from the quarterly UI contributions, LEC, penalty and interest assessed on school employers, SMIF interest income, and prior year adjustments. The UI contribution revenue totaled \$28.9 million in SFY 19/20, an increase of \$2.3 million (8.6 percent), compared to \$26.6 million in SFY 18/19.

The LEC generated \$6.0 million in revenue during SFY 19/20, which represents a decrease of \$0.6 million (9.1 percent), compared to \$6.6 million in SFY 18/19.

Penalty and interest charges assessed to SEF employers totaled \$0.09 million, during SFY 19/20, unchanged from the prior SFY 18/19.

The SMIF interest income was \$6.3 million in SFY 19/20, a decrease of \$0.9 million (12.5 percent) compared to \$7.2 million in SFY 18/19. The average SMIF apportionment yield during SFY 19/20 was 1.696 percent compared to 1.972 percent the prior year.

The total revenue was \$41.3 million for SFY 19/20, which is a decrease of \$0.2 million (0.48 percent), compared to total revenue of \$41.5 million for SFY 18/19. Figure 3 displays the total SEF revenue collected during the past five SFYs.



Unemployment Insurance Contribution Rates

The rate is determined based on the condition of the fund. The UI contribution rate is set annually and each SEF participant is notified of the rate by March 31.

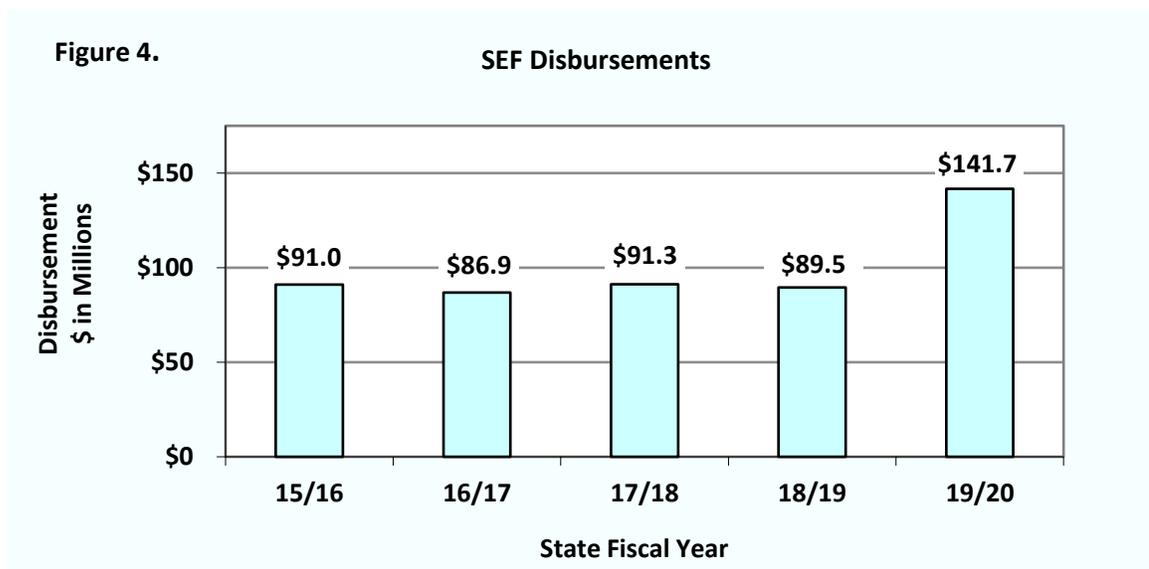
Regarding the contribution rate, Section 823(b)(2) of the CUIC states:

“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 SEF UI rate for SFY 20/21 was set at 0.05 percent by statutory formula to provide sufficient revenue for the SEF to meet its estimated financial obligations for SFY 20/21. The SEF UI rate has been set at 0.05 percent from SFY 13/14 through SFY 20/21.

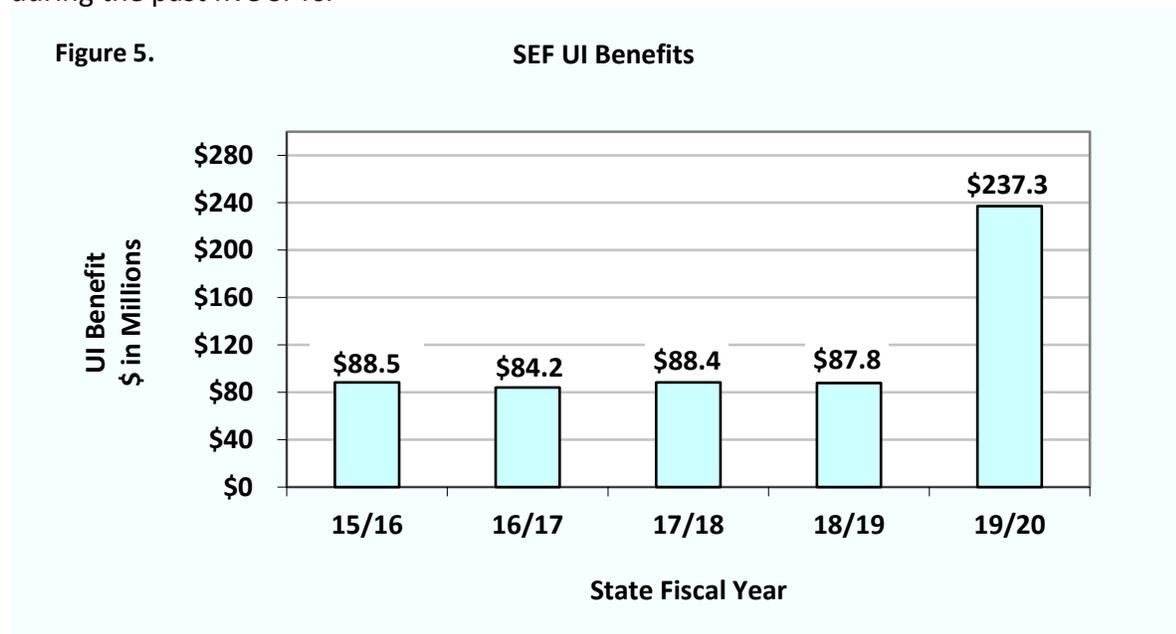
Disbursements

Total disbursements during SFY 19/20 were \$141.7 million compared to \$89.5 million in SFY 18/19, an increase of \$52.2 million (58.3 percent). Expenditures include UI benefit reimbursements to the UI Fund, administrative costs, claims management fees, and prior year adjustments. Figure 4 displays the total disbursements for the past five SFYs.



Benefits Paid

The total UI benefits paid was \$237.3 million during SFY 19/20. This represents an increase of \$149.5 million (170 percent) when compared to \$87.8 million in SFY 18/19. The increase in benefits is attributed to the COVID-19 pandemic. Figure 5 displays the total SEF UI benefits paid during the past five SFYs.



LEGISLATION

The school employer community closely monitors legislative bills, which may affect the UI program with the possible enactment of new laws, provisions, and policies.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (Pub. L. 116-136), Protecting Nonprofits from Catastrophic Cash Flow Strain Act of 2020 (Pub. L. 116-151), Continued Assistance for Unemployed Workers Act of 2020 (Pub. L. 116-260) and American Rescue Plan Act of 2021 (Pub. L. 117-2) provided emergency unemployment relief to SEF participants. Generally, this legislation provided a credit of 50 percent of the UI benefits paid to former employees for benefit weeks between March 13, 2020, and April 3, 2021 and a credit of 75 percent for benefit weeks between April 4 and September 4, 2021. Since the SEF reimburses the UI fund for benefit charges, this 50 percent credit was applied to the SEF. The credit applied for SFY 19/20 was \$84.5 million.

QUESTIONS AND COMMENTS

Contact EDD's SEF Unit at 916-653-5380 with any questions, comments, or suggestions of the administration of the SEF program.

APPENDIX A

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Statement 1

**STATEMENT OF ACTIVITY
PERIOD ENDING JUNE 30, 2020**

ACCRUAL BASIS

Revenue

Contributions	\$28,922,566.42	
Local Experience Charge	\$5,953,817.70	
Penalty And Interest	\$87,686.38	
Other Revenue	\$0.00	
Interest Income	\$6,261,633.95	
Prior Year Revenue Adjustment*	\$56,593.67	
Total Revenue		\$41,282,298.12

Disbursements

Benefit Charges Payable to UI Fund	\$237,341,092.96	
Federal CARES Act Credits	(\$84,494,058.00)	
Adjustment for Benefit Charge Accruals	(\$13,925,041.36)	
Benefit Charges Repaid To UI Fund	\$138,921,993.60	
Administrative Cost	\$807,201.89	
Claims Management Fees Paid	\$1,974,664.00	
Prior Year Adjustment	\$0.00	
Prior Year Benefit Appropriation Adjustment	\$0.00	
Total Disbursements		\$141,703,859.49
<u>Net Decrease In Fund</u>		<u>(\$100,421,561.37)</u>

*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 Claimants</u>	<u>Actual Benefits</u>
3rd Quarter 2019	19,445	\$33,846,970
4th Quarter 2019	12,091	\$17,222,676
1st Quarter 2020	19,713	\$18,941,347
2nd Quarter 2020	152,880	\$167,330,099
		<u>\$237,341,093</u>

**STATEMENT OF RECEIPTS
AND DISBURSEMENTS
SEPTEMBER 1972 THROUGH JUNE 2020**

Revenue

Contributions	\$3,154,112,568.92	
Local Experience Charge	\$214,689,462.26	
Penalty And Interest	\$3,347,578.07	
Interest Income	\$146,187,147.61	
Total Revenue	\$3,518,336,756.86	\$3,518,336,756.86

Disbursements

Benefit Charges Repaid To UI Fund*	\$3,109,713,386.19	
Local Assistance Special Pro-Rata	\$343,794.00	
Accrued Penalty And Interest	\$2,007,962.97	
Court Ordered Interest Payments	\$1,764.27	
Administrative Costs	\$26,734,190.22	
Fund Transfer**	\$98,800,000.00	
Claims Management Fees	\$69,275,815.00	
Total Disbursements	\$3,306,876,912.65	\$3,306,876,912.65

Net Fund Balance***

\$211,459,844.21

*Includes Federal CARES Act credit adjustments

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

***Subject to change pending official closing report

The Statement of Receipts and Disbursements is prepared on the accrual basis. As of June 30, 2020, outstanding liabilities for local assistance (benefits) totaled \$68.9 million.

**COMPARATIVE STATEMENT OF FUND CONDITION
FOR THREE FISCAL YEARS ENDING JUNE 30, 2020
ACCRUAL BASIS (\$ in thousands)**

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
Beginning Fund Balance	\$413,759	\$359,924	\$311,881
<u>Revenue</u>			
Contribution	\$25,494	\$26,646	\$28,922
Local Experience Charge	\$6,134	\$6,630	\$5,954
Penalty And Interest	\$106	\$85	\$88
Interest	\$5,117	\$7,183	\$6,262
Prior Year Adjustment	\$618	\$942	\$57
Total Revenue	<u>\$37,469</u>	<u>\$41,486</u>	<u>\$41,283</u>
<u>Disbursements</u>			
Benefit Charges Repaid*	\$88,396	\$87,826	\$138,922
Pro-Rata	\$0	\$0	\$0
Administrative Cost**	\$980	\$929	\$807
Claims Management Fees	\$1,928	\$1,943	\$1,975
Prior Year Adjustments	\$0	\$0	\$0
Prior Year Benefit			\$0
Appropriation Adjustment	\$0	(\$1,169)	
Total Disbursements	<u>\$91,304</u>	<u>\$89,529</u>	<u>\$141,704</u>
Ending Fund Balance***	<u>\$359,924</u>	<u>\$311,881</u>	<u>\$211,460</u>

*Includes Federal CARES Act credit adjustments

**Includes new accrual accounting for SB 84 in 2018-19

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

APPENDIX B

SCHOOL EMPLOYER ADVISORY COMMITTEE

SCHOOL EMPLOYER ADVISORY COMMITTEE

Members

MR. MICHAEL YARBER, Chair
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Sacramento, CA 95811
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Fax: 916-323-8245
E-mail: myarber@cccco.edu

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Department of Education
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Sacramento, CA 95814
916-324-4547
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Modesto, CA 95354
209-238-1948
FAX: 209-238-4271
E-Mail: tcooper@stancoe.org

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Sacramento City Unified School District
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Sacramento, CA 95824
916-643-7400 Ext. 9314
E-mail: darrel-woo@scusd.edu

Vacant

Representing

California Community Colleges Chancellor's Office

California State Superintendent of Public Instruction

California Association of School Business Officials

California School Boards Association

Association of California School Administrators

APPENDIX C

GLOSSARY

GLOSSARY

Benefits: The UI compensation payable to a former school employee, with respect a person's 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, repaid to the California UI Trust Fund. All benefit charges paid from the SEF are a disbursement.

Claims Management Fees: Annually, two dollars (\$2) per covered employee is apportioned to the State Superintendent of Public Instruction and the Chancellor of the California Community Colleges, provided from SEF interest earnings, less state administrative costs. The fees are distributed to the fund participants to administer their 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. 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 Section 828(c) of the CUIC.

Fund Participants: Participants are public school employers who have elected to participate in the SEF to finance their UI taxes.

Interest Income: Interest is earned on the account balance invested in the Surplus Money Investment Fund with the State Treasurer's Office. The yield rate changes each quarter.

Local Assistance Pro Rata: The Local Assistance Pro Rata is charged by the Department of Finance and is the recovery of central service administrative costs from special and non-governmental cost funds.

Local Experience Charge: Mandated by Section 828 of the CUIC, each SEF employer is responsible for paying a quarterly LEC, *in addition* to the quarterly contributions paid on total wages. The LEC amount due is calculated by multiplying the quarterly UI benefit charges times the participant's LEC rate. The LEC payment is due to the EDD 30 days of the mail date on the *Notice of Amount Due* (DE 6601).

Local Experience Charge Rate: Annually, the LEC rate is calculated for each SEF participant for the period July 1 through June 30. 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 Section 828(c) of the CUIC. 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 operate the SEF program effectively.

Surplus Money Investment Fund: Interest on investments of the Surplus Money investment Fund is apportioned to participating funds quarterly by the State Controller's Office per Section 16475 of the Government Code. 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 Section 823(b)(1) of the CUIC. 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 Section 823(b)(1) of the CUIC, all fund participants are notified by March 31 of the set contribution rate for the succeeding fiscal year.



STATE OF CALIFORNIA

LABOR AND WORKFORCE DEVELOPMENT AGENCY

EMPLOYMENT DEVELOPMENT DEPARTMENT

The California State Employment Development Department (EDD) is a recipient of federal and state funds, is an equal opportunity employer/program, and is in compliance with Section 504 of the Rehabilitation Act and the Americans with Disabilities Act (ADA).

The EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. Requests for services, aids, and/or alternate formats need to be made by calling (888) 745-3886 (voice). TTY users, please call (800) 547-9565.