



**ANNUAL REPORT TO THE LEGISLATURE
ON THE SCHOOL EMPLOYEES FUND
FOR STATE FISCAL YEAR 22/23**

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

March 2024

**ANNUAL REPORT TO THE LEGISLATURE
ON THE SCHOOL EMPLOYEES FUND
State Fiscal Year Ending June 30, 2023**

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March 31, 2024

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 (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, 2023. This report provides a financial summary of economic activities that affected the SEF during the SFY 22/23.

- As of June 30, 2023, the SEF had a positive balance of \$401.1 million. This represents an increase of \$265.8 million compared to the prior year.
- The SEF revenue during SFY 22/23 totaled \$329.5 million, which represents an increase of \$38.2 million (13 percent) when compared to the prior year.
- During SFY 22/23 a total of \$74.6 million in Unemployment Insurance (UI) benefits were paid to former employees compared to \$118.2 million during SFY 21/22. The decrease of \$43.6 million (37 percent) in benefits is attributed to the decrease in benefits paid due to the pandemic. Federal relief to mitigate the impact of the pandemic to employers provided \$1 million in credits to the SEF in SFY 22/23 and \$427.7 million in credits to the SEF since the onset of the pandemic.
- The SEF UI contribution rate for SFY 22/23 was set at 0.50 percent as a result of Assembly Bill (AB) 138 signed by Governor Newsom in July 2021.
- The contribution rate is expected to generate sufficient revenue to ensure a positive SEF balance is maintained through the end of SFY 23/24.

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/ NANCY FARIAS
Director

EXECUTIVE SUMMARY

In accordance with section 832 of the California Unemployment Insurance Code (CUIC), 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, 2023. This report provides a financial summary of economic activities that affected the SEF during SFY 22/23 and recommendations to ensure the adequacy of funds.

The SEF is a unique reimbursable financing method and pooled-risk fund administered by the State of California. Public school employers, kindergarten through 12th grades, and community colleges are given the option to finance their Unemployment Insurance (UI) costs by participating in the SEF, as authorized in section 821 of the CUIC. Financing UI costs under the SEF program is less costly for school employers than the tax-rated method (required for private-sector employers).

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 laws allowed a 50 percent credit for UI benefit charges for benefit weeks between March 13, 2020, and April 3, 2021, and a 75 percent credit between April 4, 2021, and September 4, 2021. The total credit applied to the SEF as of June 30, 2023, since the onset of the pandemic, is \$427.7 million. The credits were first applied to offset any Local Experience Charge (LEC) amounts due; any remaining credit was applied to the reserve account balance. 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 22/23¹:

- As of June 30, 2023, the SEF had a positive balance of \$401.1 million. This represents an increase of \$265.8 million (196 percent) compared to the SFY 21/22 ending balance of \$135.3 million. Increased UI revenue, reduced unemployment claims and continued federal relief restored the fund balance.
- Total revenue was \$329.5 million for SFY 22/23. This is an increase of \$38.2 million (13 percent) compared to the total revenue of \$291.3 million for SFY 21/22. The \$329.5 million reflects participant payments and does not include any federal credits mentioned above. The increase in revenue is due to growth in school employer payroll and increased Surplus Money Investment Fund (SMIF) apportionment yields.
- During SFY 22/23, a total of \$74.6 million in UI benefits were paid to former employees compared to \$118.2 million during SFY 21/22. The decrease of \$43.6 million (37 percent) in benefits is attributed to the decrease in benefits paid due to the economic recovery following

¹ Figures provided for SFY 21/22 in this report have been adjusted to the official financial records, which were not available when the 2022 Annual Report was prepared. Figures provided for SFY 22/23 are estimates due to unavailability of official closing statements.

the pandemic. Federal relief to mitigate the impact of the pandemic to employers provided \$1 million in credits to the SEF in SFY 22/23 and \$427.7 million in credits to the SEF since the onset of the pandemic.

- Claims management fees and administrative costs to operate the SEF totaled \$2.94 million in SFY 22/23, an increase of \$0.04 million (1 percent) compared to \$2.90 million in SFY 21/22. The increase is due to the growth of school employer payroll.
- In March 2022 EDD notified SEF participants that the SFY 22/23 SEF UI contribution rate would remain at 0.50 percent based on Assembly Bill (AB) 138, approved in July 2021, which amended section 823 of the CUIIC and established a contribution rate of 0.50 percent for SFY 21/22 and SFY 22/23. The contribution rate is expected to generate sufficient revenue to ensure a positive SEF balance is maintained through SFY 23/24.

INTRODUCTION

The Annual Report to the Legislature provides the SEF operations and financial condition for SFY 22/23, as mandated by section 832 of the CUIC.

The SEF is a unique reimbursable financing method and pooled-risk fund administered by the State of California. Public school employers, kindergarten through 12th grades, and community colleges are given the option to finance their UI costs by participating in the SEF, as authorized in section 821 of the CUIC. Financing UI costs under the SEF program is less costly for school employers than the tax-rated method (required for private-sector employers).

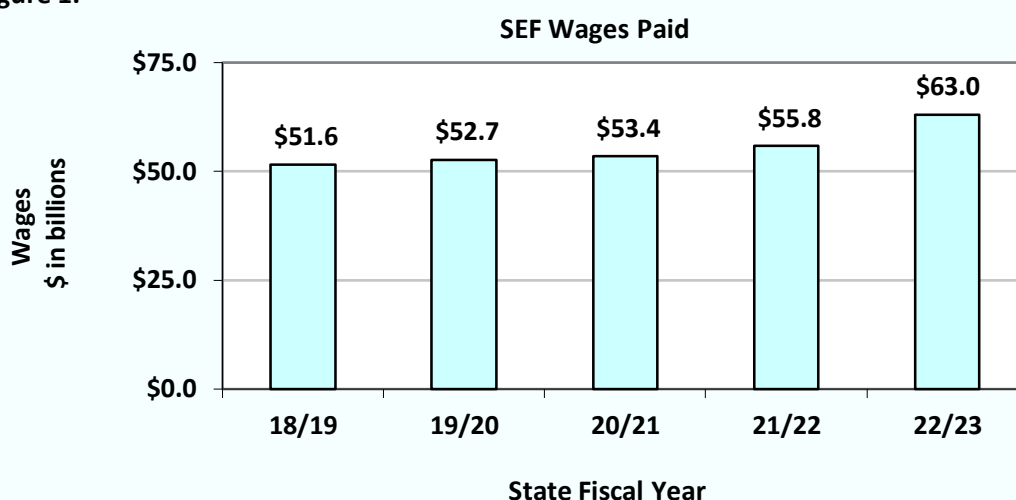
The EDD collects quarterly contributions and LEC from SEF employers. Revenue collected is used to reimburse the California UI Fund for the cost of UI benefits paid to former or furloughed school employees. Employer paid penalty and interest and earned interest on deposits in the SMIF provide additional revenue for the SEF.

PARTICIPATING SCHOOL EMPLOYERS

SEF participants include California's 73 community college districts and 1,325 public schools, County Offices of Education, and charter schools. SEF participants employed 946,636 employees in SFY 22/23 compared to 878,910 in the prior SFY, an increase of 67,726 employees (8 percent).

In SFY 22/23, participating school employers paid wages in excess of \$63.0 billion, compared to \$55.8 billion during SFY 21/22. This represents an increase of \$7.2 billion (13 percent). Figure 1 displays the growth in SEF wages paid over the last SFYs.

Figure 1.



SCHOOL EMPLOYER ADVISORY COMMITTEE

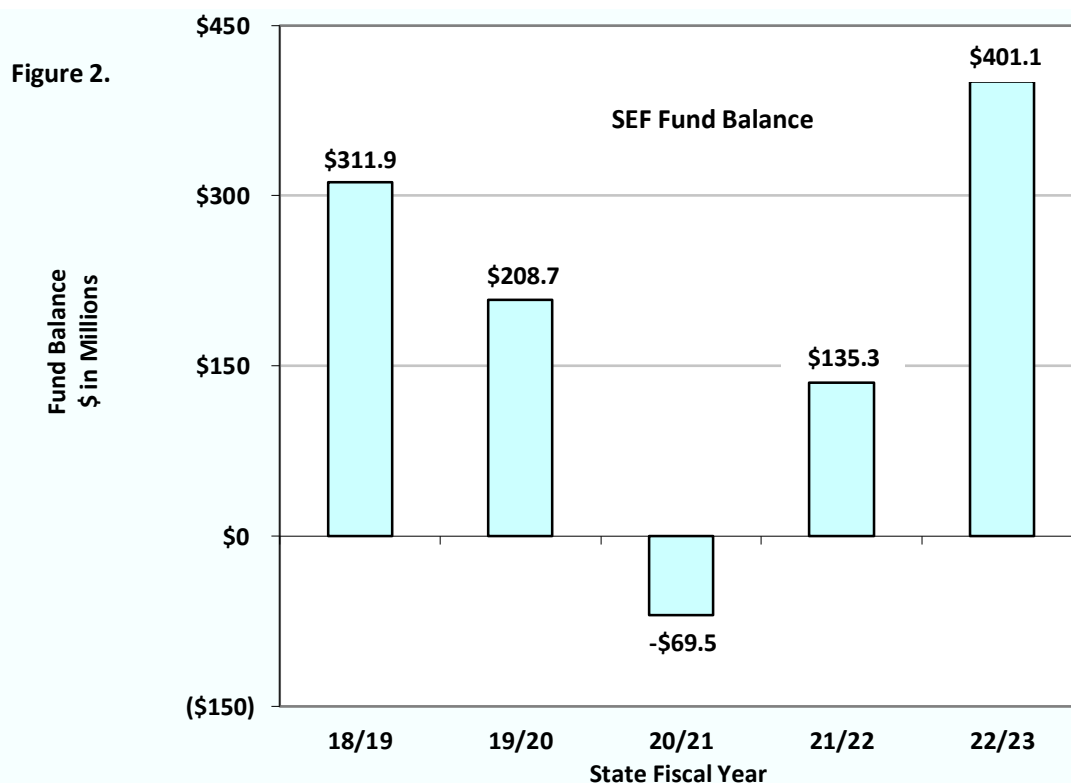
The School Employer Advisory Committee (SEAC) was created pursuant to section 831 of the CUIA. The SEAC consists of five members. The members are appointed by the California State Superintendent of Public Instruction, California Community Colleges Chancellor's Office, Association of California School Administrators, California Association of School Business Officials, and California School Boards Association. The members meet at least semi-annually with the EDD administrator to consider and recommend improvements in the administration of the SEF.

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

FINANCIAL CONDITION OF THE SCHOOL EMPLOYEES FUND

Fund Balance

The SEF balance for SFY 22/23 was \$401.1 million, a \$265.8 million (196 percent) increase from the prior SFY 21/22 balance of \$135.3 million. The fund balance increased due to a decrease of unemployment claims, continued federal relief, and the adjustment of the UI contribution rate due to AB 138 effective July 1, 2021. The contribution rate was set at 0.5 percent as a result of AB 138 (Chapter 78, Statutes of 2021) signed by Governor Newsom in July 2021. AB 138 reduced the anticipated increased SEF contribution rate from 1.23 percent in SFY 21/22 down to 0.5 percent for two years to lessen the impact on schools of pandemic related unemployment. Figure 2 reflects the ending fund balances for the past five SFYs.



Revenue

SEF revenue is generated from quarterly UI contributions, LEC, penalty and interest assessed to participants, and SMIF earned interest income.

In SFY 22/23, the UI contribution revenue totaled \$312.8 million, an increase of \$23 million (8 percent), compared to \$289.8 million in SFY 21/22. As a result of the recovery from the pandemic, the increase in UI contributions is due to the growth of school employer payroll and an increase of the UI contribution rate.

The LEC generated \$6.9 million in revenue during SFY 22/23, an increase of \$6.2 million (886 percent) compared to \$0.7 million for SFY 21/22. The increase was due to the resumption of LEC billings in SFY 22/23. During the pandemic, federal relief credits were applied to LEC billings in SFY

21/22. Participants were issued a credit for the LEC as a result of the federal relief provided by the CARES Act.

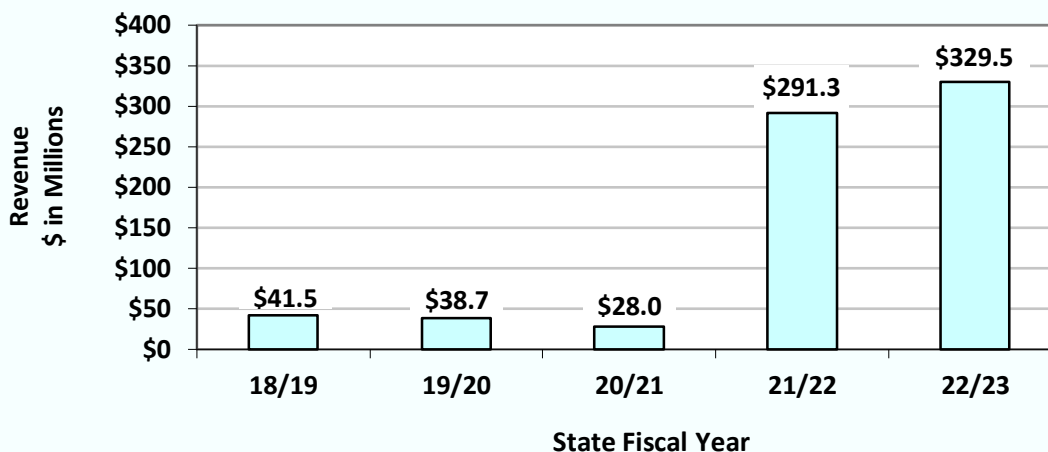
Penalty and interest charges assessed to SEF employers totaled \$1.3 million during SFY 22/23, compared to \$0.7 million for the prior SFY 21/22, an increase of \$0.6 million (86 percent).

The SMIF interest income was \$5.1 million in SFY 22/23, an increase of \$4.9 million (2,450 percent) compared to \$0.2 million in SFY 21/22. The interest is partially attributed to the rising SMIF apportionment yields. The average SMIF apportionment yield during SFY 22/23 increased to 2.13 percent compared to 0.327 percent in SFY 21/22.

The total revenue was \$329.5 million for SFY 22/23, an increase of \$38.2 million (13 percent), compared to total revenue of \$291.3 million for SFY 21/22. Figure 3 displays the total SEF revenue collected during the past five SFYs.

Figure 3.

SEF Revenue



Unemployment Insurance Contribution Rates

All participating employers pay the same contribution rate to the SEF, which is a percentage of their total annual employee payroll. The SEF contribution rate is determined by law, per section 823(b)(2) of the CUIC. The rate is calculated using annual wages paid by the participating employers, annual UI benefit charges for all SEF participants, and the fund balance at the end of the prior calendar year.

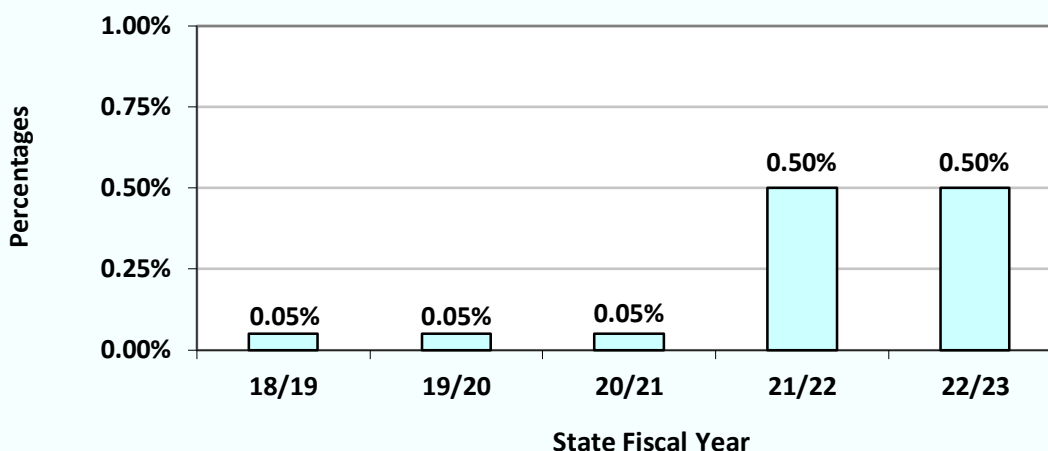
The participating employers' contribution rate ensures that the SEF will have enough money to reimburse the UI Trust Fund for the UI benefits paid to former employees of the participating employers.

EDD must notify the participating employers of their annual SEF contribution rate by March 31 for the succeeding SFY. This is an annual process, and the notification language is established in law to include the UI contribution rate and other relevant information.

In March 2021, EDD notified SEF participants that the SFY 21/22 SEF UI contribution rate would be 1.23 percent based on the statutory calculation. AB 138, approved in July 2021, amended section 823 of the CUIA, and established a contribution rate of 0.50 percent for SFY 21/22 and SFY 22/23. The SEF UI Rate has been set at 0.05 percent for SFY 23/24. Figure 4 displays the UI contribution rates over the past five SFYs.

Figure 4.

Unemployment Contribution Rate



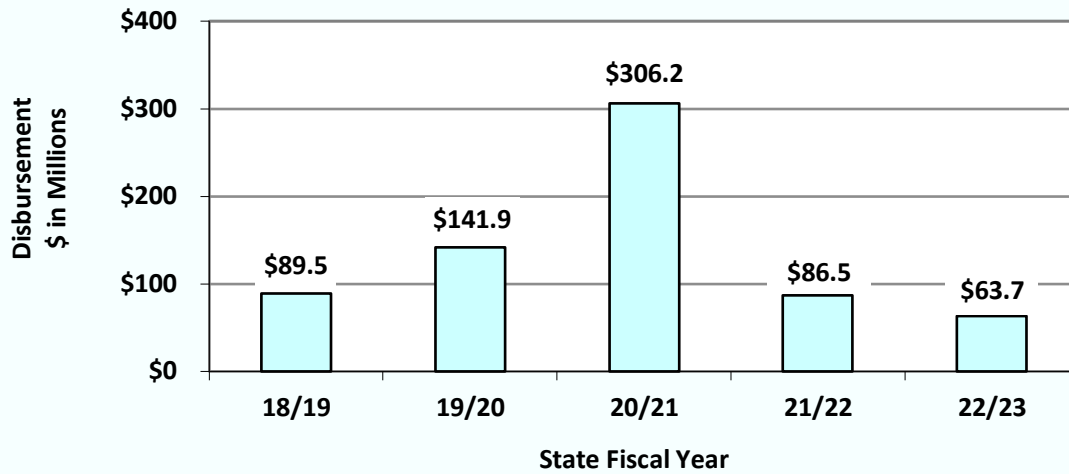
Disbursements

Disbursements include UI benefit reimbursements to the UI Trust Fund, administrative costs, claims management fees, and prior year adjustments.

Total disbursements during SFY 22/23 were \$63.7 million compared to \$86.5 million in SFY 21/22, a decrease of \$22.8 million (26 percent). The decrease is due to the lower benefit charges and the economic recovery from the COVID-19 pandemic. Figure 5 displays the total disbursements for the past five SFYs.

Figure 5.

SEF Disbursements

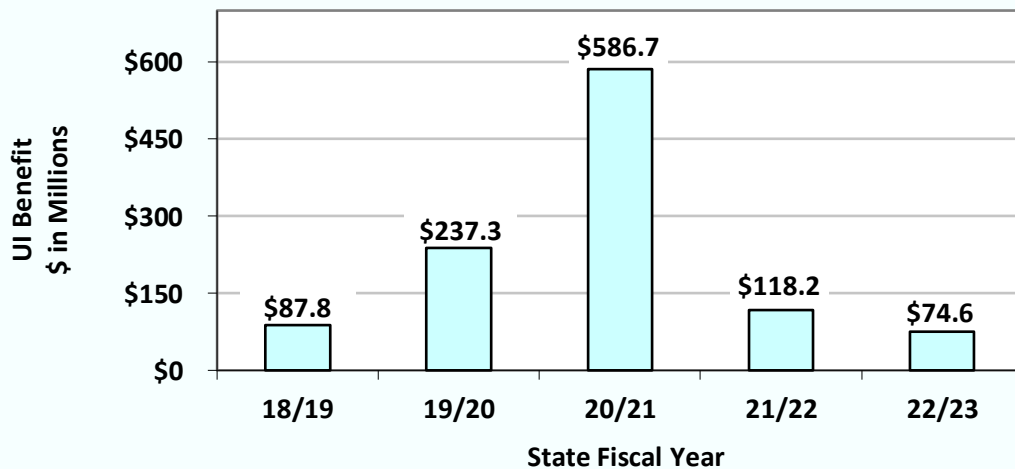


Benefits Paid²

The total UI benefits paid to former employees during SFY 22/23 was \$74.6 million, a decrease of \$43.6 million (37 percent) when compared to \$118.2 million in SFY 21/22. The decrease in benefits is due to the recovery from the COVID-19 pandemic. Figure 6 displays the total SEF UI benefits paid during the past five SFYs.

Figure 6.

SEF UI Benefits



² SEF UI Benefits paid amount are listed before federal CARES Act was applied.

LEGISLATION

The school employer community closely monitors pending legislation, which may affect the UI program and the SEF.

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 UI relief to SEF participants. These federal laws allowed a 50 percent credit for UI benefit charges for benefit weeks between March 13, 2020, and April 3, 2021, and a 75 percent credit between April 4, 2021, and September 4, 2021. The credit applied to SEF for SFY 22/23 was \$1 million.

QUESTIONS AND COMMENTS

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

APPENDIX A

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS**Statement 1****STATEMENT OF ACTIVITY³
PERIOD ENDING JUNE 30, 2023*****ACCRUAL BASIS***Revenue

Contributions	\$312,814,803.25	
Local Experience Charge	\$6,870,764.26	
Penalty And Interest	\$1,266,202.06	
Other Revenue	\$0.00	
Interest Income	\$5,142,632.60	
Prior Year Revenue Adjustment*	\$3,433,930.13	
Total Revenue		\$329,528,332.30

Disbursements

Benefit Charges Repaid to UI Fund	\$60,791,431.80	
Administrative Cost	\$1,050,576.45	
Claims Management Fees Paid	\$1,893,272.00	
Prior Year Adjustment	\$0.00	
Prior Year Benefit Appropriation Adjustment	\$0.00	
Total Disbursements		\$63,735,280.25
<u>Net Increase in Fund</u>		<u>\$265,793,052.05</u>

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

³Figures are estimates due to unavailability of official closing statements.

**STATEMENT OF RECEIPTS
AND DISBURSEMENTS⁴
SEPTEMBER 1972 THROUGH JUNE 2023⁵**

Revenue

Contributions	\$3,785,168,018.48	
Local Experience Charge	\$222,226,580.22	
Penalty And Interest	\$5,388,721.40	
Interest Income	\$151,820,752.00	
Total Revenue		\$4,164,604,072.10

Disbursements

Benefit Charges Repaid to UI Fund*	\$3,557,534,425.68	
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	\$30,212,106.11	
Fund Transfer**	\$98,800,000.00	
Claims Management Fees	\$74,573,113.00	
Total Disbursements		\$3,763,473,166.03

Net Fund Balance***

\$401,130,906.07

*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.

⁴ Amounts for SFY 22/23 included in this statement are estimates due to unavailability of official closing statements.

⁵ An estimated financial statement was used to prepare the 2022 Annual Report. The final financial statement was received and requires corrections to the SFY 21/22 amounts reported in the 2022 Annual Report. The changes are reflected in the cumulative totals and on Statement 3.

Statement 3

**COMPARATIVE STATEMENT OF FUND CONDITION
FOR THREE FISCAL YEARS ENDING JUNE 30, 2023
ACCRUAL BASIS (\$ in thousands)**

	20/21	21/22	22/23
Beginning Fund Balance	\$208,708	(\$69,498)	\$135,338
<u>Revenue</u>			
Contribution	\$26,907	\$289,812	\$312,815
Local Experience Charge	\$0	\$666	\$6,870
Penalty And Interest	\$78	\$697	\$1,266
Interest	\$1,126	\$196	\$5,143
Prior Year Adjustment	(\$142)	(\$31)	\$3,434
Total Revenue	\$27,969	\$291,340	\$329,528
<u>Disbursements</u>			
Benefit Charges Repaid*	\$289,501	\$83,623	\$60,791
Pro-Rata	\$0	\$0	\$0
Administrative Cost	\$1,103	\$1,123	\$1,051
Claims Management Fees	\$1,646	\$1,758	\$1,893
Prior Year Adjustments	\$0	\$0	\$0
Prior Year Benefit			
Appropriation Adjustment	\$13,925	\$0	\$0
Total Disbursements	\$306,175	\$86,504	\$63,735
Ending Fund Balance**	(\$69,498)	\$135,338	\$401,131

*Includes federal CARES Act credit adjustments

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

APPENDIX B

SCHOOL EMPLOYER ADVISORY COMMITTEE

SCHOOL EMPLOYER ADVISORY COMMITTEE

Members

MS. JUBILEE SMALLWOOD, Chair

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Sacramento, CA 95811
916-327-6225 (Rolls to Cell)
FAX: 916-322-4019
E-Mail: jsmallwood@cccco.edu

MR. ELLIOT DUCHON, Vice Chair

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Cell: 951-232-2581
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E-Mail: elliottduchon@yahoo.com

MS. NANCY SMITH

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E-Mail: nksmith.ns@gmail.com

MS. SANTHA RAJIV

Stanislaus County Office of Education
1100 H Street
Modesto, CA 95354
209-238-1948 (Rolls to Cell)
FAX: 209-238-4271
E-Mail: srajiv@gusd.net

MR. JOHN MILES

1430 N Street
Sacramento, CA 95814
1-916-445-7289
E-Mail: jmiles@cde.ca.gov

Representing

Rep. California Community Colleges Chancellor's
Office – (CCCC)

Rep. Association of California School
Administrators – (ACSA)

Rep. California School Boards Association –
(CSBA)

Rep. California Association of School Business
Officials – (CASBO)

Rep. California State Department of Education–
(CDE)

APPENDIX C

GLOSSARY

GLOSSARY

Benefits: The UI compensation payable to a former school employee, with respect to 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 systems.

Experience: A SEF participant must be in the SEF 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 Trust 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 SMIF 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 EDD within 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 SEF participants are notified by March 31 of their individual LEC rates for the succeeding SFY as required by section 828(c) of the CUIC. Additionally, section 828(a) of the CUIC mandates that new SEF participants are subject to a 10 percent LEC rate for the first three complete SFYs.

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 SFY 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.

Administrative Costs: The SEF administrative costs are the cost of resources and tools necessary to operate the SEF program effectively.

Surplus Money Investment Fund (SMIF): Interest on investments of the SMIF 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.

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.

Contribution Rate: The UI 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.



**Gavin Newsom
Governor
STATE OF CALIFORNIA**

**Stewart Knox
Secretary
LABOR & WORKFORCE DEVELOPMENT AGENCY**

**Nancy Farias
Director
EMPLOYMENT DEVELOPMENT DEPARTMENT**