

**ANNUAL REPORT TO THE LEGISLATURE
ON THE SCHOOL EMPLOYEES FUND
FOR STATE FISCAL YEAR 2018-19**

Prepared by

California Employment Development Department

School Employees Fund Unit

March 2020

**ANNUAL REPORT TO THE LEGISLATURE
ON THE SCHOOL EMPLOYEES FUND
For State Fiscal Year Ending June 30, 2019**

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March 31, 2020

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, 2019. This report provides a financial summary of economic activities that affected the SEF during the SFY.

- As of June 30, 2019, the SEF had a fund balance of \$311.9 million. This represents a decrease of \$48.0 million compared to the prior year.
- The SEF revenue during SFY 2018-19 totaled \$41.5 million, which represents an increase of \$4.0 million (10.7 percent) when compared to the prior year.
- The SEF's total disbursements were \$89.5 million in SFY 2018-19 compared to \$91.3 million in SFY 2017-18, a decrease of \$1.8 million (1.9 percent).
- The SEF UI contribution rate for SFY 2019-20 was calculated at 0.05 percent. This rate will provide sufficient revenue for the SEF to meet its estimated financial obligations.

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/ SHARON HILLIARD
Director

EXECUTIVE SUMMARY

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, 2019. This report provides a financial summary of economic activities that affected the SEF during SFY 2018-19 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. It is a joint, pooled-risk fund administered by the EDD, which collects contributions from SEF participants. Money deposited in the SEF reimburses the California UI Trust Fund for the cost of UI benefits paid to former employees of SEF employers.

The highlights of this report are:

- As of June 30, 2019, the SEF ended with a fund balance of \$311.9 million. This represents a decrease of \$48.0 million (13.3 percent) compared to the SFY 2017-18 ending balance of \$359.9 million. The decrease in the fund balance was expected as benefits paid outpaced revenue.
- The SEF revenue during SFY 2018-19 totaled \$41.5 million, which is an increase of \$4.0 million (10.7 percent) compared to \$37.5 million in total revenue collected during SFY 2017-18. The revenue growth is a result of an increase in contributions, Local Experience Charges (LEC) and the Surplus Money Investment Fund (SMIF) interest.
- The LEC generated \$6.6 million in revenue during SFY 2018-19, which represents an increase of \$0.5 million (8.2 percent), compared to \$6.1 million in SFY 2017-18. The increase in revenue is attributed to a shift in employers paying a higher LEC rate than in prior years.
- Employer paid penalty and interest and earned SMIF interest on deposits with the State Treasury provides additional revenue for the SEF. The SMIF yield rate has continued to rise over the past year. The chart below shows the changes.

Other Revenue				
	SFY 2017-18	SFY 2018-19	Difference in Dollars	Percentage Change
Penalty and Interest	\$0.11 Million	\$0.09 Million	\$0.02 Million	(18.2%)
SMIF Interest	\$5.1 Million	\$7.2 Million	\$2.1 Million	41.2%
SMIF Yield Rate	1.254%	1.972%	0.718%	57.3%

- In SFY 2018-19, disbursements were \$89.5 million compared to \$91.3 million in SFY 2017-18. The decrease of \$1.8 million (2.0 percent) is a result of fewer UI benefits paid and a decline in administrative costs.
- During SFY 2018-19, a total of \$87.8 million in UI benefits were paid to former school employees compared to \$88.4 million during SFY 2017-18. The decrease of \$0.6 million (0.68 percent) in benefits may have been attributed to the continued increase in Proposition 98 funding, allowing school budgets to stabilize.
- Administrative costs to operate the SEF totaled \$0.9 million during SFY 2018-19, a decrease of \$0.1 million (10.0 percent) compared to \$1.0 million in SFY 2017-18. The SEF paid \$1.9 million in claims management fees in SFYs 2017-18 and 2018-19.
- The SEF UI contribution rate was calculated by statutory code and set at 0.05 percent for SFY 2019-20. The rate will provide sufficient revenue for the SEF to meet its estimated financial obligations for SFY 2019-20.

On March 19, 2020 The California State Public Health Officer and Director of the California Department of Public Health (CDPH) ordered all individuals living in the State of California to stay home or at their place of residence, except as needed to maintain continuity of operation of the federal critical infrastructure sectors. The California Department of Education encouraged all Local Educational Agencies (LEAs) to follow the CDPH recommendations and close school campuses. Senate Bill 117 (Committee on Budget and Fiscal Review, Chapter 3, Statutes of 2020) was enacted to provide COVID-19 LEA response funds to be used for costs associated with maintaining nutrition services, cleaning, and disinfecting facilities, personal protective equipment, and materials necessary to provide opportunities for distance learning. This action resulted in the closure of the majority of school campuses throughout California. The magnitude and duration of the school closures and the effect on the SEF is unknown at this time.

INTRODUCTION

The Annual Report to the Legislature provides comments and recommendations on the administration of the School Employees Fund (SEF) as of June 30, 2019. This report includes the SEF operations and financial condition for SFY 2018-19 as mandated by Section 832 of the California Unemployment Insurance Code (CUIC).

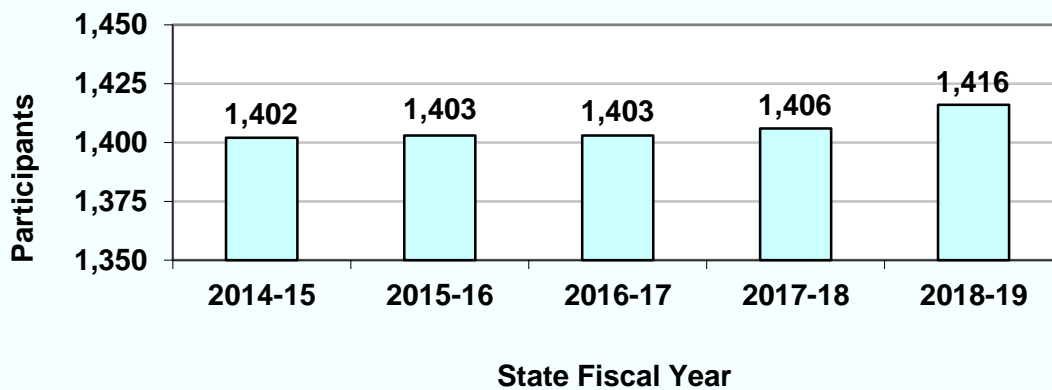
In 1978, Unemployment Insurance (UI) coverage was extended to all public entities and the SEF was established as a joint, pooled-risk fund administered by the State of California. Public school employers, kindergarten through 12th grades, and community colleges were given the option to finance their UI costs by participating in the SEF, as authorized in 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), or the direct reimbursable method (elected by public and nonprofit entities).

The Employment Development Department (EDD) collects quarterly contributions and Local Experience Charges (LEC) from SEF employers. Revenue collected for UI Contributions and LECs reimburse the California UI Trust 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

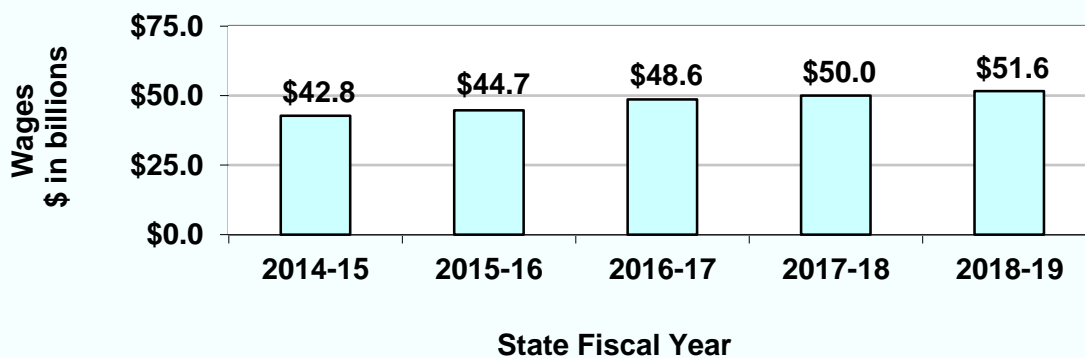
The SEF participants include California's 72 community college districts and 1,344 public schools, County Offices of Education, and charter schools. As Figure 1 displays, the number of SEF participants have grown over the past five SFYs. SEF participants employed 971,449 employees in SFY 2018-19 compared to 964,132 in the prior fiscal year, an increase of 7,317 employees (0.76 percent).

Figure 1. Number of SEF Participants



In SFY 2018-19, participating school employers paid wages in excess of \$51.6 billion, compared to \$50.0 billion during the SFY 2017-18.¹ This represents an increase of \$1.6 billion (3.2 percent). Figure 2 displays the growth in SEF wages paid over a five-year period.

Figure 2. SEF Wages Paid



¹ Prior annual reports used data from April through March. For consistency purposes, from this report forward, data is from July through June.

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 (UTS). 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.

Unemployment Insurance Seminar for School Employers

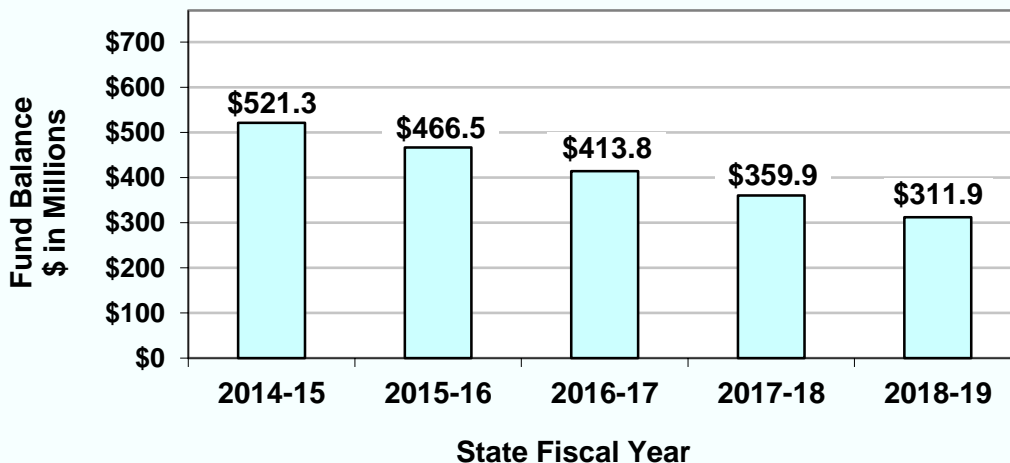
The annual SEAC/UTS UI seminar was held in Santa Barbara on October 23, 2018. The seminar focused on UI claims management practices for school employers to help control UI costs.

FINANCIAL CONDITION OF THE SCHOOL EMPLOYEES FUND²

Fund Balance

The SEF ended SFY 2018-19 with a fund balance of \$311.9 million, a \$48.0 million (13.3 percent) decrease from the prior fiscal year balance of \$359.9 million. Figure 3 reflects the ending fund balances as of June 30 for the past five SFYs.

Figure 3. SEF Fund



² Refer to Appendix A3

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.

UI contribution revenue totaled \$26.6 million in SFY 2018-19, an increase of \$1.1 million (4.3 percent), compared to \$25.5 million in SFY 2017-18.

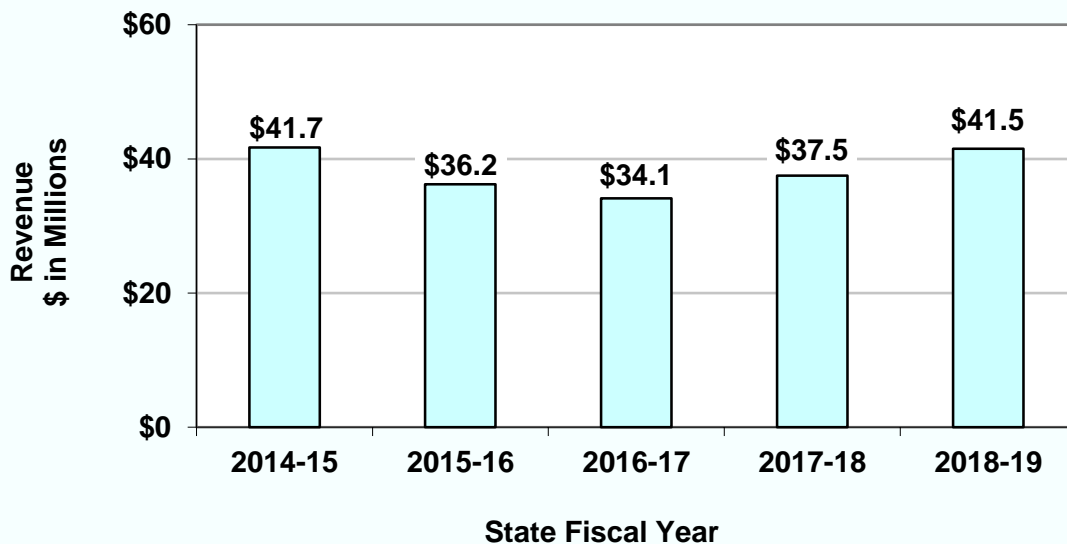
The LEC generated \$6.6 million in revenue during SFY 2018-19, an increase of \$0.5 million (8.2 percent) compared to \$6.1 million in SFY 2017-18. The increase in revenue may be attributed to a shift in employers paying a higher LEC rate than in prior years.

Penalty and interest charges assessed to SEF employers totaled \$0.09 million, during SFY 2018-19. This is a decrease of \$0.02 million (18.2 percent) compared to \$0.11 million earned in SFY 2017-18.

The SMIF interest income increased by \$2.1 million (41.2 percent) to total \$7.2 million in SFY 2018-19 compared to \$5.1 million in SFY 2017-18. The average SMIF apportionment yield during SFY 2018-19 was 1.972 percent compared to 1.254 percent in the prior year.

The SEF's total revenue was \$41.5 million for SFY 2018-19. This is an increase of \$4.0 million (10.7 percent) compared to the total revenue of \$37.5 million for SFY 2017-18. Figure 4 displays the total SEF revenue collected during the past five SFYs.

Figure 4. SEF Revenue



Unemployment Insurance Contribution Rates

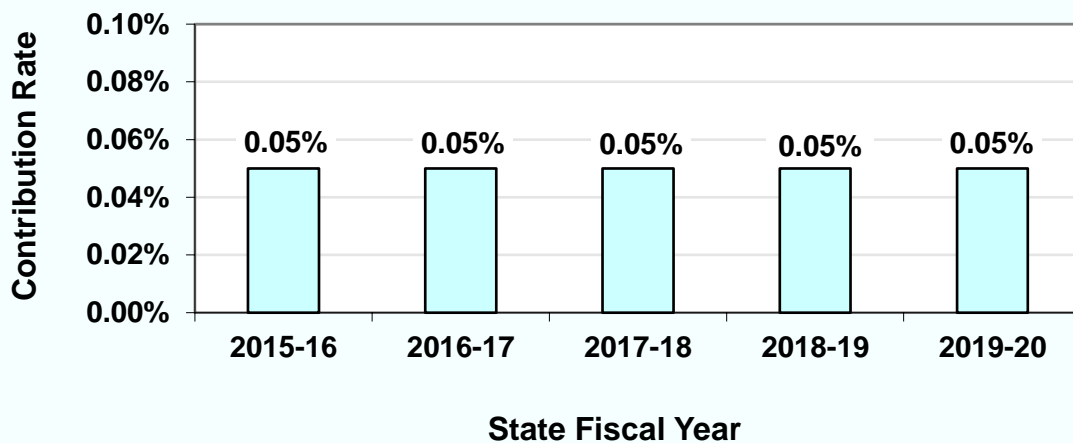
The rate is determined based on the condition of the fund. The UI contribution rate is set annually and each SEF participant is notified of the rate by March 31.

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 UI contribution rate for SFY 2019-20, calculated by statutory code, has been set at the minimum adjusted rate of 0.05 percent. The rate will provide sufficient revenue for the SEF to meet its estimated financial obligations for SFY 2019-20. Figure 5 displays the contribution rates for the past five SFYs.

Figure 5. SEF Contribution Rates

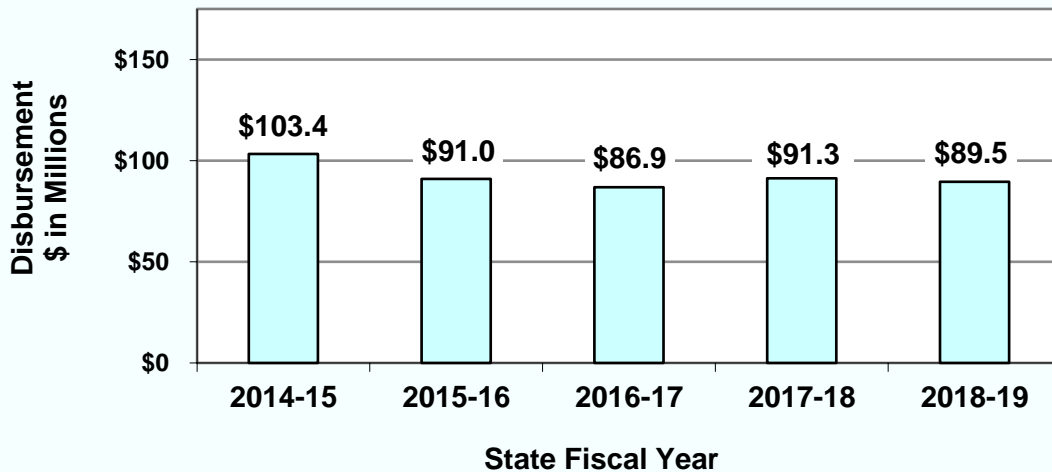


Disbursements

Total disbursements during SFY 2018-19 were \$89.5 million compared to \$91.3 million in SFY 2017-18, a decrease of \$1.8 million (2.0 percent). Expenditures include UI benefit repayments to the California UI Trust Fund, administrative costs, claims management fees,

and prior year adjustments. Figure 6 displays the total disbursements for the past five SFYs.

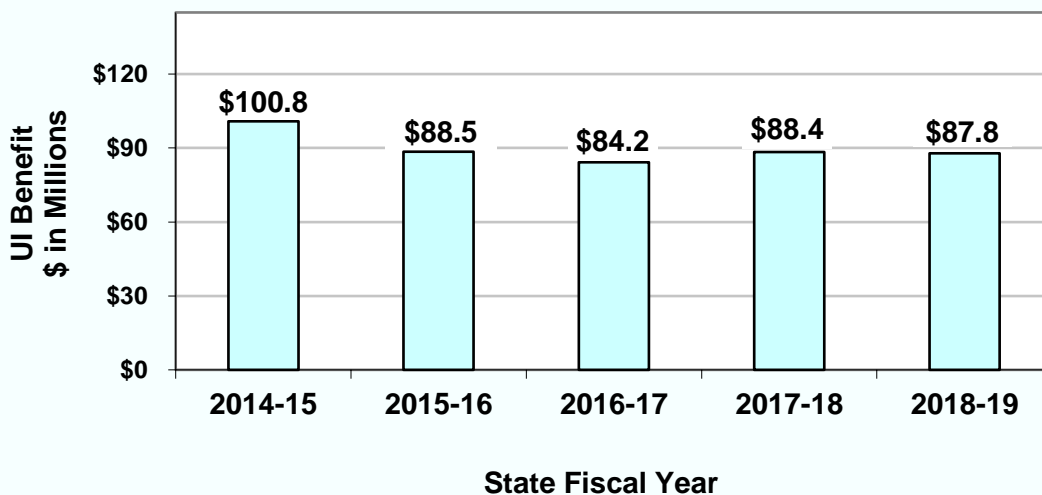
Figure 6. SEF Disbursements



Benefits Paid

The total UI benefits paid to former school employees was \$87.8 million during SFY 2018-19. This represents a decrease of \$0.6 million (0.68 percent) when compared to \$88.4 million in SFY 2017-18. The decrease in benefits may be attributed to the continued increase in Proposition 98 funding; allowing school budgets to stabilize and avert layoffs. Figure 7 displays the total SEF UI benefits paid during the past five SFYs.

Figure 7. SEF UI Benefits



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. There were no legislative bills affecting the SEF in SFY 2018-19.

On March 19, 2020 The California State Public Health Officer and Director of the California Department of Public Health (CDPH) ordered all individuals living in the State of California to stay home or at their place of residence, except as needed to maintain continuity of operation of the federal critical infrastructure sectors. The California Department of Education encouraged all Local Educational Agencies (LEAs) to follow the CDPH recommendations and close school campuses. Senate Bill 117 (Committee on Budget and Fiscal Review, Chapter 3, Statutes of 2020) was enacted to provide COVID-19 LEA response funds to be used for costs associated with maintaining nutrition services, cleaning, and disinfecting facilities, personal protective equipment, and materials necessary to provide opportunities for distance learning. This action resulted in the closure of the majority of school campuses throughout California. The magnitude and duration of the school closures and the effect on the SEF is unknown at this time.

RECOMMENDATION

For SFY 2019-20, the SEF UI contribution rate was calculated by statutory code and set at the minimum adjusted rate of 0.05 percent. The rate will provide sufficient revenue to meet the estimated financial obligations for SFY 2019-20.

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
STATE FISCAL YEAR 2018-19**

ACCRUAL BASIS

<u>Revenue</u>		
Contributions	\$26,645,291.39	
Local Experience Charge	\$6,630,224.26	
Penalty And Interest	\$85,449.55	
Other Revenue	\$84.82	
Interest Income	\$7,182,773.35	
Prior Year Revenue Adjustment*	\$942,006.50	
Total Revenue		\$41,485,829.87
<u>Disbursements</u>		
Benefit Charges Repaid To	\$87,825,625.35	
Unemployment Insurance Fund		
SEF Administrative Cost	\$928,841.96	
Claims Management Fees Paid	\$1,942,898.00	
Prior Year Adjustment*	\$0.00	
Prior Year Benefit Appropriation		
Adjustment	(\$1,168,611.13)	
Total Disbursements		\$89,528,754.18
<u>Net Decrease In Fund</u>		<u>(\$48,042,924.31)</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>Cost of Benefits</u>
3rd Quarter 2018	20,369	\$35,987,000
4th Quarter 2018	13,098	\$19,849,542
1st Quarter 2019	15,342	\$18,138,764
2nd Quarter 2019	13,651	\$13,850,319
		<u>\$87,825,625</u>

**STATEMENT OF RECEIPTS
AND DISBURSEMENTS
SEPTEMBER 1972 THROUGH JUNE 2019**

Revenue

Contributions	\$3,125,133,408.83	
Local Experience Charge	\$208,735,644.56	
Penalty And Interest	\$3,259,891.69	
Interest Income	\$139,925,513.66	
Total Revenue		\$3,477,054,458.74

Disbursements

Benefit Charges Repaid To UI Fund	\$2,970,791,392.59	
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	\$25,926,988.33	
Fund Transfer*	\$98,800,000.00	
Claims Management Fees	\$67,301,151.00	
Total Disbursements		\$3,165,173,053.16

<u>Net Fund Balance</u>	<u><u>\$311,881,405.58</u></u>
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*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, 2019, outstanding liabilities for local assistance (benefits) totaled \$13.9 million.

	Accrued
	<u>Disbursements</u>
Second Quarter of 2019 Estimated Benefit Charges for year-end closing.	\$13,850,319.00

Statement 3

**COMPARATIVE STATEMENT OF FUND CONDITION
FOR THREE FISCAL YEARS ENDING JUNE 30, 2019
ACCRUAL BASIS (\$ in thousands)**

	2016-17	2017-18	2018-19
Beginning Fund Balance	\$466,510	\$413,759	\$359,924
<u>Revenue</u>			
Contribution	\$24,704	\$25,494	\$26,646
Local Experience Charge	\$5,966	\$6,134	\$6,630
Penalty And Interest	\$220	\$106	\$85
Interest	\$3,274	\$5,117	\$7,183
Prior Year Adjustment	<u>(\$23)</u>	<u>\$618</u>	<u>\$942</u>
Total Revenue	\$34,141	\$37,469	\$41,486
<u>Disbursements</u>			
Benefit Charges Repaid	\$84,223	\$88,396	\$87,826
Pro-Rata	\$0	\$0	\$0
SEF Administrative Cost*	\$771	\$980	\$929
Claims Management			
Fees	\$1,898	\$1,928	\$1,943
Prior Year Adjustments	\$0	\$0	\$0
Prior Year Benefit			
Appropriation Adjustment	\$0	\$0	(\$1,169)
Total Disbursements	<u>\$86,892</u>	<u>\$91,304</u>	<u>\$89,529</u>
Ending Fund Balance**	<u>\$413,759</u>	<u>\$359,924</u>	<u>\$311,881</u>

*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

DR. HAROLD L. BORING, Chair

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MR. DARREL WOO

Sacramento City Unified School District
5735 47th Avenue
Sacramento, CA 95824
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Representing

Association of California School
Administrators

California Community Colleges Chancellor's
Office

California State Superintendent of Public
Instruction

California Association of School Business
Officials

California School Boards Association

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 CUIIC.

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 CUIIC, 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 CUIIC. 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 CUIA. 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 CUIA, 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.