

**ANNUAL REPORT TO THE LEGISLATURE  
ON THE SCHOOL EMPLOYEES FUND  
FOR STATE FISCAL YEAR 20/21**

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

**March 2022**

**ANNUAL REPORT TO THE LEGISLATURE  
ON THE SCHOOL EMPLOYEES FUND  
State Fiscal Year Ending June 30, 2021**

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March 31, 2022

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, 2021. This report provides a financial summary of economic activities that affected the SEF during the SFY 20/21.

- As of June 30, 2021, the SEF had a negative balance of \$69.9 million. This represents a decrease of \$278.6 million compared to the prior year.
- The SEF revenue during SFY 20/21 totaled \$27.3 million, which represents a decrease of \$11.4 million (29 percent) when compared to the prior year.
- During SFY 20/21, a total of \$586.7 million in Unemployment Insurance (UI) benefits were paid to former employees compared to \$237.3 million during SFY 19/20. The increase of \$349.4 million (147 percent) in benefits is attributed to the increase in benefits paid due to the pandemic. Federal relief to mitigate the impact of the pandemic to employers provided \$297.2 million in credits to the SEF to cover 50% of the \$586.7 million liability.
- The SEF UI contribution rate for SFY 21/22 was set at 0.50 percent as a result of Assembly Bill 138 signed by Governor Newsom in July 2021.
- The contribution rate is expected to generate sufficient revenue to return to a positive SEF balance by the end of SFY 21/22.

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](http://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, 2021. This report provides a financial summary of economic activities that affected the SEF during SFY 20/21 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 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 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 20/21 was \$297.2 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 20/21<sup>1</sup>:

- As of June 30, 2021, the SEF had a negative balance of \$69.9 million. This represents a decrease of \$278.6 million (133 percent) compared to the SFY 19/20 ending balance of \$208.7 million. The fund balance decreased due to the surge in benefits paid as a result of the COVID-19 pandemic.
- Total revenue was \$27.3 million for SFY 20/21. This is a decrease of \$11.4 million (29 percent) compared to the total revenue of \$38.7 million for SFY 19/20. The \$27.3 million reflects participant payments and not any federal credits mentioned above.
- During SFY 20/21, a total of \$586.7 million in UI benefits were paid to former employees compared to \$237.3 million during SFY 19/20. The increase of \$349.4 million (147 percent) in benefits is attributed to the increase in benefits paid due to the pandemic. Federal relief to mitigate the impact of the pandemic to employers provided \$297.2 million in credits to the SEF to cover 50 percent of the \$586.7 million liability.

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<sup>1</sup> Figures provided for SFY 19/20 in this report have been adjusted to the official financial records, which were not available when the 2020 Annual Report was prepared. Figures provided for SFY 20/21 are estimates due to unavailability of official closing statements.

- Claims management fees and administrative costs to operate the SEF totaled \$2.7 million in SFY 20/21, a decrease of \$0.2 million (0.68 percent) compared to \$3 million in SFY 19/20.
- In March 2021, the EDD notified SEF participants that the SFY 21/22 SEF UI contribution rate would be 1.23 percent based on the statutory calculation specified in Section 823(b)(2) of the CUIC. Assembly Bill 138, approved in July 2021, amended Section 823 of the CUIC, 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 return to a positive SEF balance by the end of SFY 21/22.
- The EDD recognizes the impact that COVID-19 has had on SEF participants. Concerns regarding possible improper UI benefit payments will be investigated and any ineligible UI claim paid will be established as an overpayment and collection action will be taken. Recovered benefit overpayments will be credited back to the SEF and reflected in the participant's reserve account.

## **INTRODUCTION**

The Annual Report to the Legislature provides the SEF operations and financial condition for SFY 20/21 as mandated by Section 832 of the CUIC.

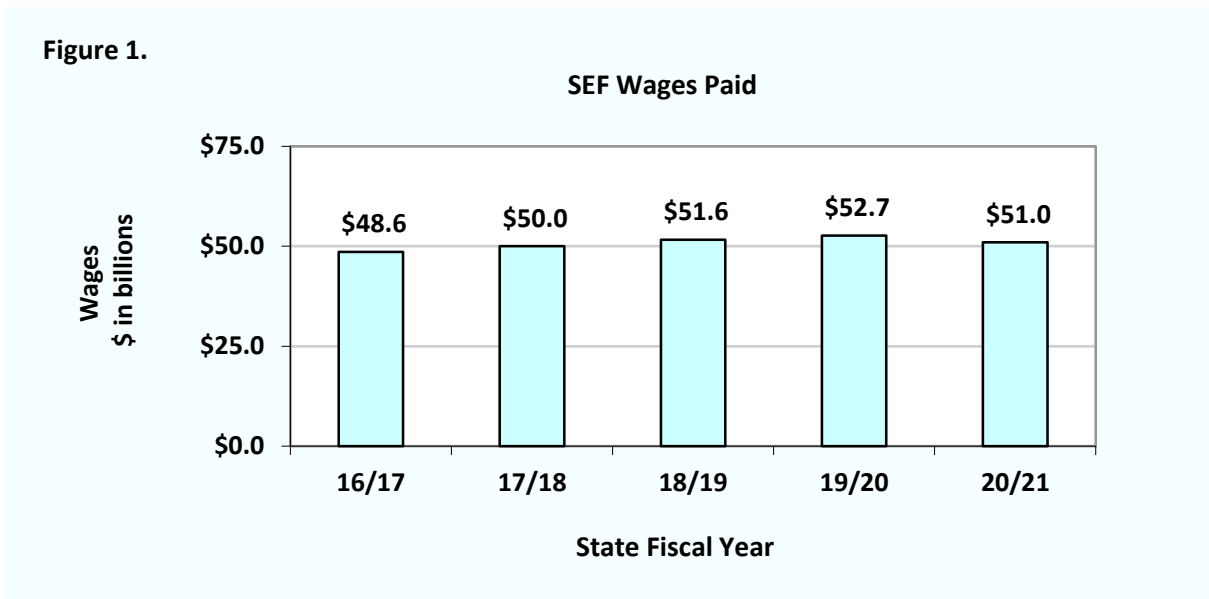
The SEF is a pooled-risk fund administered by the State of California. Public school employers, kindergarten through 12th grades, and community colleges are given the option to finance their UI costs by participating in the SEF, as authorized in Section 821 of the CUIC. Financing UI costs under the SEF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

The EDD collects quarterly contributions and 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 or furloughed 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. The SEF participants employed 823,103 employees in SFY 20/21 compared to 987,332 in the prior SFY, a decrease of 164,229 employees (17 percent).

In SFY 20/21 participating school employers paid wages in excess of \$51.0 billion, compared to \$52.7 billion during SFY 19/20. This represents a decrease of \$1.7 billion (3 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. 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.

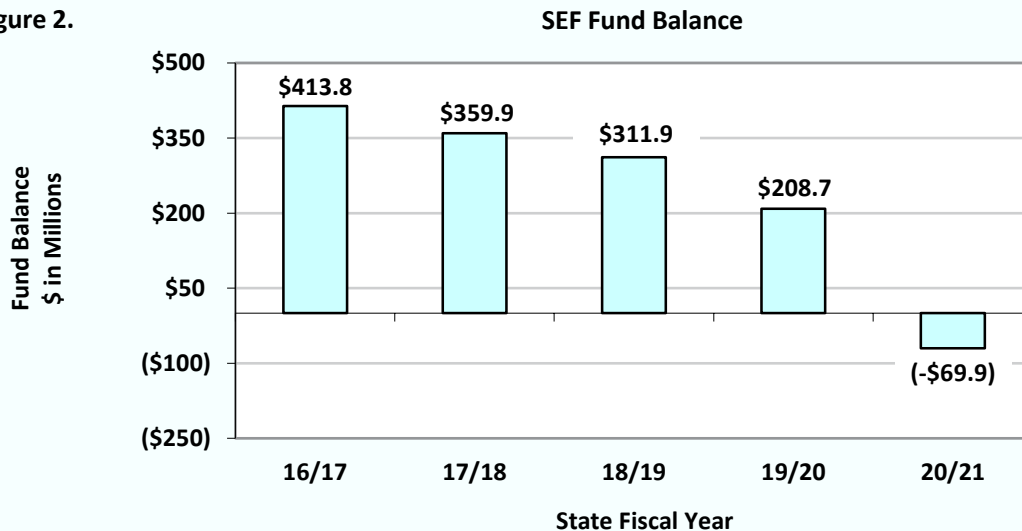
The UI Technical Subcommittee (UIITS) serves under the direction of the SEAC. Its membership consists of representatives from California’s school employer community and the EDD. The UIITS works in conjunction with the SEAC to discuss the SEF’s financial condition, provide outreach, and assist school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

## FINANCIAL CONDITION OF THE SCHOOL EMPLOYEES FUND

### Fund Balance

The SEF balance for SFY 20/21 was negative \$69.9 million, a \$278.6 million (133 percent) decrease from the prior SFY 19/20 balance of \$208.7 million. Figure 2 reflects the ending fund balances for the past five SFYs.

Figure 2.



### Revenue

SEF revenue is generated from the quarterly UI contributions, LEC, penalty and interest assessed to participants, and SMIF earned interest income. In SFY 20/21, the UI contribution revenue totaled \$26.1 million, a decrease of \$0.3 million (1 percent), compared to \$26.4 million in SFY 19/20.

LEC revenue was not collected during SFY 20/21. 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 \$0.08 million during SFY 20/21, compared to \$0.09 million for the prior SFY 19/20, a decrease of \$0.01 million (11 percent).

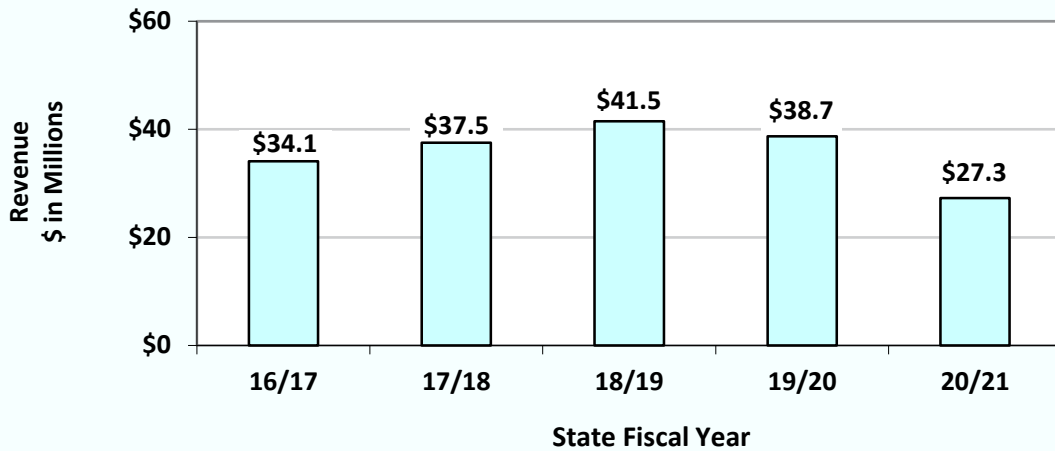
The SMIF interest income was \$1.2 million in SFY 20/21, a decrease of \$4.1 million (77 percent) compared to \$5.3 million in SFY 19/20. The reduced interest income is attributed to a declining fund balance coupled with falling SMIF apportionment yields. The average SMIF apportionment yield during SFY 20/21 declined to 0.456 percent compared to 1.696 percent in SFY 19/20.

The total revenue was \$27.3 million for SFY 20/21, a decrease of \$11.4 million (29 percent), compared to total revenue of \$38.7 million for SFY 19/20. 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, 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.

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

In March 2021, the EDD notified SEF participants that the SFY 21/22 SEF UI contribution rate would be 1.23 percent based on the statutory calculation specified in Section 823(b)(2) of the CUIC. Assembly Bill 138, approved in July 2021, amended Section 823 of the CUIC, and established a contribution rate of 0.50 percent for SFY 21/22 and SFY 22/23.

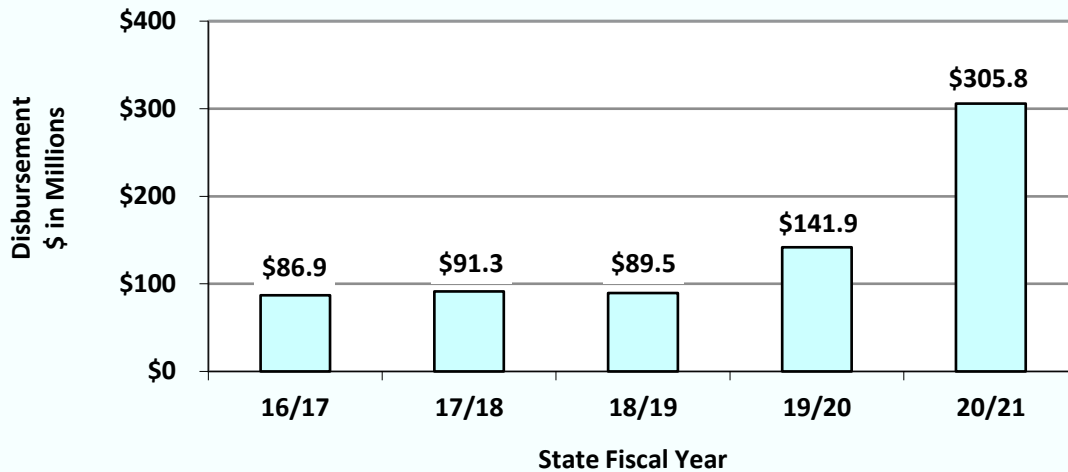
### Disbursements

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

Total disbursements during SFY 20/21 were \$305.8 million compared to \$141.9 million in SFY 19/20, an increase of \$163.9 million (116 percent). Figure 4 displays the total disbursements for the past five SFYs.

Figure 4.

SEF Disbursements

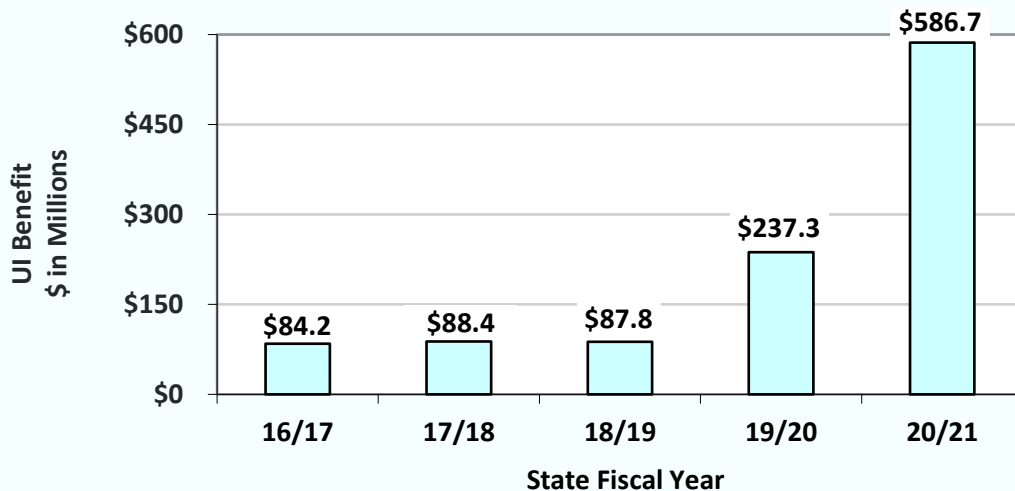


### Benefits Paid

The total UI benefits paid to former employees during SFY 20/21 was \$586.7 million, an increase of \$349.4 million (147 percent) when compared to \$237.3 million in SFY 19/20. The increase in benefits is attributed to the COVID-19 pandemic. The impact to the SEF would have been much greater without the federal credit since the credit covered roughly 50 percent of the \$586.7 million liability. Figure 5 displays the total SEF UI benefits paid during the past five SFYs.

Figure 5.

SEF UI Benefits



## **LEGISLATION**

The school employer community closely monitors legislation, which may affect the UI program and the SEF 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 UI relief to SEF participants. 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 credit applied to SEF for SFY 20/21 was \$297.2 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 ACTIVITY<sup>2</sup>  
PERIOD ENDING JUNE 30, 2021

**ACCRUAL BASIS**

Revenue

Contributions	\$26,110,202.34	
Local Experience Charge	\$0.00	
Penalty And Interest	\$78,336.47	
Other Revenue	\$0.00	
Interest Income	\$1,225,724.78	
Prior Year Revenue Adjustment*	<u>(\$142,443.13)</u>	
Total Revenue		\$27,271,820.46

Disbursements

Benefit Charges Repaid To UI Fund	\$303,091,335.16	
Administrative Cost	\$1,112,646.42	
Claims Management Fees Paid	\$1,646,206.00	
Prior Year Adjustment	\$0.00	
Prior Year Benefit Appropriation Adjustment	<u>\$0.00</u>	
Total Disbursements		<u>\$305,850,187.58</u>
<u>Net Decrease In Fund</u>		<u><u>(\$278,578,367.12)</u></u>

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

<sup>2</sup>Figures are estimates due to unavailability of official closing statements.

**STATEMENT OF RECEIPTS  
AND DISBURSEMENTS<sup>3</sup>  
SEPTEMBER 1972 THROUGH JUNE 2021<sup>4</sup>**

Revenue

Contributions	\$3,178,441,043.96	
Local Experience Charge	\$214,689,462.26	
Penalty And Interest	\$3,425,530.02	
Interest Income	\$146,482,193.54	
Total Revenue		\$3,543,038,229.78

Disbursements

Benefit Charges Repaid To UI Fund*	\$3,412,784,999.379	
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	\$28,047,706.42	
Fund Transfer**	\$98,800,000.00	
Claims Management Fees	\$70,922,021.00	
Total Disbursements		\$3,612,908,248.44

Net Fund Balance\*\*\*

**(\$69,870,018.66)**

\*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, 2021, outstanding liabilities for local assistance (benefits) totaled \$125.4 million.

<sup>3</sup> Amounts for SFY 20/21 included in this statement are estimates due to unavailability of official closing statements

<sup>4</sup> An estimated financial statement was used to prepare the 2020 Annual Report. The final financial statement was received and requires corrections to the SFY 19/20 amounts reported in the 2020 Annual Report. The changes are reflected in the cumulative totals and on Statement 3.

**COMPARATIVE STATEMENT OF FUND CONDITION  
FOR THREE FISCAL YEARS ENDING JUNE 30, 2021  
ACCRUAL BASIS (\$ in thousands)**

	18/19	19/20 <sup>5</sup>	20/21
Beginning Fund Balance	\$359,924	\$311,881	\$208,708
<u>Revenue</u>			
Contribution	\$26,646	\$26,415	\$26,110
Local Experience Charge	\$6,630	\$5,954	\$0
Penalty And Interest	\$85	\$87	\$78
Interest	\$7,183	\$5,331	\$1,226
Prior Year Adjustment	\$942	\$925	(\$142)
Total Revenue	<u>\$41,486</u>	<u>\$38,712</u>	<u>\$27,272</u>
<u>Disbursements</u>			
Benefit Charges Repaid*	\$87,826	\$138,922	\$303,091
Pro-Rata	\$0	\$0	\$0
Administrative Cost**	\$929	\$1,008	\$1,113
Claims Management Fees	\$1,943	\$1,975	\$1,646
Prior Year Adjustments	\$0	\$0	\$0
Prior Year Benefit			
Appropriation Adjustment	(\$1,169)	(\$20)	\$0
Total Disbursements	<u>\$89,529</u>	<u>\$141,885</u>	<u>\$305,850</u>
Ending Fund Balance***	<u>\$311,881</u>	<u>\$208,708</u>	<u>(\$69,870)</u>

\*Includes FCA credit adjustments

\*\*Includes new accrual accounting for SB 84 in 18/19

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

<sup>5</sup> An estimated financial statement was used to prepare the 2020 Annual Report. The amount for SFY 19/20 has been amended to reflect the final financial statement.

**APPENDIX B**

**SCHOOL EMPLOYER ADVISORY COMMITTEE**



## SCHOOL EMPLOYER ADVISORY COMMITTEE

### Members

**MS. ZANDRA BLACK, Chair**

Department of Education  
1430 N Street, Suite 3800  
Sacramento, CA 95814  
916-324-4547  
Cell: 916-202-1491  
FAX: 916-327-6157  
E-mail: zblack@cde.ca.gov

**MS. THERESA COOPER, Vice-Chair**

Business Services  
District Business Support, PaRC  
Stanislaus County Office of Education  
1100 H Street  
Modesto, CA 95354  
209-238-1948  
FAX: 209-238-4271  
E-Mail: tcooper@stancoe.org

**MR. ELLIOT DUCHON**

Jurupa Unified School District  
915-360-41668  
Cell: 951-232-2581  
Fax: 951-360-4194  
E-Mail: elliottduchon@yahoo.com

**MS. JUBILEE SMALLWOOD**

1102 Q Street  
Sacramento, CA 95811  
916-327-6225 (Rolls to Cell)  
FAX: 916-322-4019  
E-Mail: jsmallwood@cccco.edu

**MR. DARREL WOO**

Sacramento City Unified School District  
5735 47th Avenue  
Sacramento, CA 95824  
916-643-7400 Ext. 9314  
E-mail: darrel-woo@scusd.edu

### Representing

California State Superintendent of Public Instruction

California Association of School Business Officials

Association of California School Administrators

California Community Colleges Chancellor's Office

California School Boards Association

## **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 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 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 Surplus Money Investment Fund (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 the 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) 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 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.

**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.



## **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.