

A REVIEW OF FUNDING ALTERNATIVES FOR THE
COMMISSION ON TEACHER CREDENTIALING

DECEMBER 1985

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
SUMMARY OF FINDINGS AND RECOMMENDATIONS.....	2
CHAPTER I. THE COMMISSION'S CURRENT FUNDING STRUCTURE	
A. Functions of the Commission.....	6
B. Revenue Sources of the Commission.....	7
C. Condition of the Teacher Credentials Fund.....	13
D. Background: Evolution of the Current Funding Structure.....	16
E. Problems with the Current Funding Structure	
1. The Current Structure Does Not Provide Sufficient Revenue.....	17
2. The Current Structure Does Not Satisfy the "Benefit Principle".....	20
3. The Current Structure Does Not Provide Financial Stability.....	22
4. The Current Structure Does Not Provide Useful Data.....	23
CHAPTER II. CRITERIA FOR ASSESSING FUNDING ALTERNATIVES.....	26
CHAPTER III. POSSIBLE REVENUE SOURCES.....	27
CHAPTER IV. FOUR ALTERNATIVE FUNDING STRUCTURES.....	34
A. The Current Funding Structure.....	36
B. General Fund Support for Professional Standards and Examination Development.....	38
C. General Fund Support for Professional Standards and Examination Development, and Accreditation Fees.....	40
D. Accreditation Fees, Registration Fees, and General Fund Support for Studies and Reports.....	43
CONCLUSION AND RECOMMENDATIONS.....	46

INTRODUCTION

The Commission on Teacher Credentialing (CTC) is supported entirely by fee revenue, most of which is derived from credential and examination fees. These fees have generated adequate revenues to finance the commission in the past, but in recent years they have failed to keep pace with the commission's funding needs. As a result, the reserve balance in the Teacher Credentials Fund has declined from the \$2.0 million level (41 percent of the commission's annual expenditures) reached at the end of 1982-83, and is expected to be \$878,000 (12 percent of expenditures) at the end of 1985-86.

Recognizing this problem, the Legislature (in the Supplemental Report of the 1984 Budget Act) directed the Legislative Analyst to examine alternatives to the present system for funding the commission.

This report was prepared in response to the Legislature's directive. It (1) identifies options for funding the operations of the commission, (2) evaluates these options, and (3) provides our recommendations.

This report was prepared by Paula Mishima, under the supervision of Ray Reinhard and Hal Geiogue. It was typed by Maria Ponce.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

A. FINDINGS

1. The Commission on Teacher Credentialing's current funding structure is not producing enough revenue to support the commission's current level of activity. Unless the Legislature acts to increase the commission's revenues or cut back its existing programs, the Teacher Credentials Fund will likely run a deficit in 1986-87 (page 17).

2. The commission's current funding structure does not require all of those who benefit from the commission's activities to help fund them. This is not consistent with the "benefit principle," a commonly-accepted criterion on fairness in public finance (page 20).

3. The commission's current funding structure does not yield a stable flow of revenues. The majority of the commission's revenue comes from credential fees. Since the demand for credentials--and, hence, credential fee revenue--is unpredictable, the commission can never be sure that it will receive enough revenue to support its activities in a given year. This hinders the commission's ability to conduct long-term planning (page 22).

4. The commission's current funding structure does not provide useful data on the supply of and demand for teachers. This is because the system does not identify credential holders who are employed within California (page 23).

B. RECOMMENDATIONS

We recommend that the Legislature: (1) enact urgency legislation increasing the maximum credential fee level from \$40 to \$50, in order to meet the immediate funding needs of the commission, (2) enact legislation authorizing the Commission on Teacher Credentialing to charge accreditation fees and registration fees, and (3) provide General Fund support for certain commission activities which primarily serve the Legislature's information needs.

Addressing the Commission's Short-Term Funding Problem

In order to avoid a deficit in the Teacher Credentials Fund during 1986-87, the Legislature must enact urgency legislation to increase the commission's revenue. We recommend that this legislation increase the maximum fee charged to credential applicants. This will provide the additional revenue that the commission needs, pending adoption of a new funding mechanism that can remedy the problems noted above.

Remedying Problems With the Commission's Current Funding Structure

We believe that the basis for legislative action to improve the commission's current funding structure should be the benefit principle. That is, those who benefit directly from the commission's activities should be responsible for funding these activities, unless there are compelling reasons for doing otherwise.

Clearly, all practicing teachers benefit from the commission's activities. Therefore, it is reasonable to require that all teachers contribute toward the support of the commission on an ongoing basis.

Hence, we recommend that the credential fee be continued as the primary source of revenue for the commission's activities, and that a registration fee be required of all practicing teachers.

Those postsecondary institutions which offer education programs also benefit from the commission's program evaluation and approval activities. Accordingly, it is reasonable to require these institutions to support the commission through the payment of accreditation fees.

Finally, the Legislature--and, ultimately, the general public--benefits from certain studies, data collection and reporting activities of the commission. The information yielded by these activities helps the Legislature improve the effectiveness of programs and policies related to education and the teaching profession. Hence, it would be appropriate for the state General Fund to support some or all of these activities.

Adding new registration and accreditation fees, along with General Fund support, to the commission's current funding structure would make this structure more equitable and enhance its financial stability. Furthermore, instituting a registry system would enable the commission to gather better data on the supply of and demand for teachers.

We recommend that the Legislature not provide General Fund support for the professional standards activities of the commission. Although the general public derives some benefit from the commission's professional standards activities, the primary beneficiary of these activities is the teaching profession itself. Accordingly, it is appropriate for the

teaching profession to finance these activities through fees. This, in fact, is the policy that the Legislature has followed in funding the professional standards activities of virtually all other boards and commissions in California.

CHAPTER I
THE COMMISSION'S CURRENT FUNDING STRUCTURE

A. FUNCTIONS OF THE COMMISSION

The Commission on Teacher Credentialing (CTC) performs six functions designed to improve the teaching profession and the quality of instruction in elementary and secondary schools.

- Standards. The commission develops standards and regulations for credentialing teachers and administrators.
- Credentials. The commission evaluates applicants for credentials and approves those found to meet its standards.
- Programs. The commission evaluates and approves teacher education programs. In order to obtain commission approval, these programs must meet specified requirements. Once a program has been approved, the commission periodically evaluates it to (1) determine its continued compliance with commission requirements, (2) assess its effectiveness, and (3) make recommendations for improvement. In order to receive a teaching credential, applicants must complete a commission-approved teacher education program.
- Enforcement. The commission appoints a "Committee of Credentials" to hear allegations of misconduct or incompetence levied against credential applicants and holders. The committee investigates these allegations, and based on its findings,

recommends whether the commission should take any action against the individual. Among the actions that might be taken are a private admonition, and denial, suspension or revocation of the individual's credential. (A certificated employee may request an administrative hearing before the commission denies, suspends, or revokes a credential.)

- Examinations. The commission develops and administers "legislatively-mandated examinations," which applicants are required to pass.
- Studies and Reports. The commission conducts various studies related to the teaching profession, collects data and prepares required reports on the number of credential holders, and establishes policy leadership in the field of teacher preparation.

B. REVENUE SOURCES OF THE COMMISSION

The commission charges various fees to applicants seeking credentials, in order to cover all of its costs. Table 1 shows the commission's total revenue by source. Table 2 shows what functions the fees support. Table 3 shows the maximum statutory fee level, and the fees currently being charged.

Table 1

Commission on Teacher Credentialing
Revenues, by Funding Source^a
1980-81 through 1985-86
(dollars in thousands)

	Actual 1980-81	Actual 1981-82	Actual 1982-83	Actual 1983-84	Actual 1984-85	Estimated 1985-86
Credential Fees	\$3,142	\$3,757	\$3,838	\$2,783	\$3,394	\$3,400
Examination Fees: ^b						
Subject Matter	85	94	101	94	118	100
CBEST	--	--	767	1,790	2,119	2,107
BCC	--	--	--	--	109	147
LDS	--	--	--	--	18	78
BCAC	--	--	--	--	--	8
Subtotal, Exam Fees	85	94	868	1,884	2,364	2,440
Fingerprint Fees:						
FBI	--	--	410 ^c	202	247	241
Department of Justice	--	--	--	24	320	330
Subtotal, Fingerprint Fees	0	0	410	226	567	571
Interest Income	90	122	177	179	206	206
Miscellaneous Income	4	16	8	65 ^d	16	--
Prior-Year Adjustment	-1	--	-5	--	--	--
Total Revenues	\$3,319	\$3,989	\$5,297	\$5,137	\$6,547	\$6,617

a. Figures may not add to totals due to rounding.

b. CBEST: California Basic Educational Skills test.

 BCC: Bilingual Certificate of Competence exam.

 LDS: Language Development Specialist exam.

 BCAC: Bilingual Certificate of Assessment Competence exam.

c. Includes collection of back fees.

d. The major portion of this income (\$48,123) includes refunds to the Teacher Credentials Fund from the Federal Trust fund.

Table 2

Commission on Teacher Credentialing
 Fee-for-Service Funding Structure
 (dollars in thousands)

<u>1983-84 (Actual)</u>	<u>Expenditures</u>	<u>Funding</u>	
		<u>Amount</u>	<u>Source</u>
Functions Supported by Credential Fees:			
Credential Issuance and Information	\$1,936		
Certification Standards/Research	428		
Program Evaluation and Approval	504		
Professional Standards	614		
Subtotal	<u>\$3,482</u>	\$2,783	Credential Fees
Examination Administration	1,696	1,884	Exam Fees
Fingerprint Clearances	413	226	Fingerprint Fees
	--	244	Other Income
Totals	<u>\$5,591</u>	<u>\$5,137</u>	
<u>1984-85 (Actual)</u>			
Functions Supported by Credential Fees:			
Credential Issuance and Information	\$1,938		
Certification Standards/Research	660		
Program Evaluation and Approval	468		
Professional Standards	752		
Subtotal	<u>\$3,818</u>	\$3,394	Credential Fees
Examination Administration	2,070	2,364	Exam Fees
Fingerprint Clearances	477	567	Fingerprint Fees
	--	222	Other Income
Totals	<u>\$6,365</u>	<u>\$6,547</u>	
<u>1985-86 (Estimated)</u>			
Functions Supported by Credential Fees:			
Credential Issuance and Information	\$2,188		
Certification Standards/Research	756		
Program Evaluation and Approval	556		
Professional Standards	1,015		
Subtotal	<u>\$4,515</u>	\$3,400	Credential Fees
Examination Administration	2,732	2,440	Exam Fees
Fingerprint Clearances	571	571	Fingerprint Fees
		206	Other Income
Subtotal	<u>\$7,818</u>	<u>\$6,617</u>	
Voluntary Unallocated Reductions	-200		
Totals	<u>\$7,618</u>		

Table 3
 Commission on Teacher Credentialing
 Fee Levels
 1984-85

	<u>Current Amount</u>	<u>Statutory Limitation</u>	<u>Education Code Section</u>
Credential Fee	\$40	Maximum: \$40	44235
Examination Fees ^b :			
Subject Matter	\$30	Intended to cover the full cost of exam system	44298
CBEST	\$32	Maximum: \$40	44252.5
BCC	\$120	Intended to cover the full cost of exam system	44298
LDS	\$120	May not exceed the fees established for other certificates of competence	44298, 44481
BCAC	-- ^a		
Fingerprint Fees:			
FBI	\$12	Covers costs incurred by the FBI	44237(f)
Department of Justice	\$17.50	Covers costs incurred by the DOJ	44237(f)

a. This fee has not yet been set.

b. CBEST: California Basic Educational Skills Test.

 BCC: Bilingual Certificate of Competence.

 LDS: Language Development Specialist.

 BCAC: Bilingual Certificate of Assessment Competence.

As Table 1 shows, the commission is supported primarily by the credential and examination fees. In the current year, the credential fee accounts for 51 percent of the commission's total revenue, and the examination fee accounts for 37 percent.

Credential Fee

The credential fee, currently set at \$40, is charged to all applicants who apply for:

- Preliminary credentials--these credentials are issued to those applying for their first credential who have not completed certain requirements, and are valid for five years;
- First-time clear credentials--these credentials are issued to those applying for their first credentials who have completed all requirements, and are valid for five years;
- Clear credential renewals--these credentials are issued to credential holders who do not have a life credential, and are valid for five years; and
- Life credentials--these credentials were issued prior to September 1, 1985 to credential holders who had a clear credential and had taught for two years, and are valid for the "life" of the holder.

The credential fee supports most of the commission's functions, including: (1) developing standards and procedures for credentialing teachers and administrators, (2) issuing credentials, (3) evaluating and approving teacher education programs, (4) investigating allegations of

misconduct and incompetence on the part of credential applicants and holders, and revoking credentials when warranted, and (5) conducting studies and preparing reports on the number of credential holders. In recent years, the credential fee has been subsidized by the California Basic Educational Skills Test (CBEST) examination fee.

Examination Fee

Applicants taking one of the examinations administered by the commission must pay an examination fee. Currently, the commission administers the following examinations:

- Subject matter;
- California Basic Educational Skills Test (CBEST);
- Bilingual Certificate of Competence (BCC);
- Language Development Specialist (LDS);
- Bilingual Certificate of Assessment Competence (BCAC).

The commission is authorized by statute to charge fees that are sufficient to cover the costs of developing and administering each examination. Since the inception of the CBEST examination, however, the fees charged those taking the CBEST have yielded revenues that exceed the costs associated with its administration. As a result, these applicants have subsidized other commission functions.

In contrast, the cost of developing the BCC and LDS examinations have exceeded the fee revenue collected from those taking these examinations, therefore requiring subsidies from other fees. These examinations are very costly to develop and administer, and the number of

applicants is very small. Under these circumstances, the fee needed to cover costs could be prohibitive.

Fingerprint Fee

All first-time credential applicants must pay a fee to cover the cost of fingerprint clearances through (1) the State Department of Justice, which checks the applicant for offenses committed in California, and (2) the Federal Bureau of Investigation, which checks for offenses committed nationwide.

C. CONDITION OF THE TEACHER CREDENTIALS FUND

Table 4 shows the trends in revenues and expenditures for the Teacher Credentials Fund during the last ten years. The table indicates that annual revenues have not been sufficient to cover annual expenditures in six of these ten years. The table also shows that the reserve balance in the Teacher Credentials Fund is estimated to be \$878,000 at the end of 1985-86. It should be noted that this includes \$200,000 in "voluntary unallocated reductions" taken by the commission in anticipation of a deficit in the Teacher Credentials Fund. The surplus amounts to about 12 percent of the commission's annual expenditures, which is a little more than one-half of what the Department of Finance has determined to be a prudent reserve for the commission (21 percent, or \$1.6 million). Thus, the estimated balance in the fund will be significantly below what is considered a prudent reserve.

Our analysis indicates that the fund is approaching a deficit condition. If budget projections turn out to be accurate, the current

structure will not provide adequate revenues during the current fiscal year. In fact, the fund would have run a deficit condition earlier had it not been for two factors: (1) a large reserve and (2) "windfall" revenue from administration of the CBEST.

The commission no longer has a large reserve upon which to draw. Moreover, as the CBEST contract is renegotiated, it is unlikely that the commission will continue to receive windfall revenue from this source. Hence, it is likely that the Teacher Credentials Fund will incur a deficit in 1986-87, unless the Legislature takes action to increase the commission's revenue or reduce its expenditures.

Table 4

Teacher Credentials Fund
Revenues, Expenditures, and Surplus/Deficit^a
1976-77 through 1985-86
(dollars in thousands)^b

	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85^c</u>	<u>1985-86^c</u>
Balance, start of year (adjusted)	\$1,995	\$2,344	\$2,157	\$1,661	\$1,052	\$1,050	\$1,613	\$1,937 ^d	\$1,697 ^d	\$1,879
Revenues ^e	3,094	2,668	2,266	2,521	3,319	3,989	5,297	5,137	6,547	6,617
Expenditures (--) ^e	<u>2,745</u>	<u>2,855</u>	<u>2,762</u>	<u>3,130</u>	<u>3,322</u>	<u>3,426</u>	<u>4,889</u>	<u>5,592</u>	<u>6,365^f</u>	<u>7,618^f</u>
(Annual surplus or deficit)	<u>(\$349)</u>	<u>(-\$187)</u>	<u>(-\$495)</u>	<u>(-\$609)</u>	<u>(-\$2)</u>	<u>(\$563)</u>	<u>(\$408)</u>	<u>(-\$455)</u>	<u>(\$182)</u>	<u>(-\$1,001)</u>
Balance, end of year	\$2,344	\$2,157	\$1,661	\$1,052	\$1,050	\$1,613	\$2,021	\$1,481	\$1,879	\$878

a. Source: Controller's Annual Report.

b. Figures may not add to totals due to rounding.

c. Source: preliminary 1986-87 Governor's Budget.

d. Includes a prior-year adjustment per Governor's Budget.

e. Includes prior-year adjustments.

f. Includes \$200,000 voluntary unallocated reduction.

D. BACKGROUND: EVOLUTION OF THE CURRENT FUNDING STRUCTURE

Twenty years ago, state certification officials' only function was to screen credential applications and issue credentials. The \$10 fee then charged to the credential applicant provided enough revenue to cover the costs of processing these applications.

During the past twenty years, however, the statutory functions of the licensing agency have been expanded to include the following:

- Developing standards and procedures for credentialing teachers and administrators;
- Evaluating and approving teacher preparation programs;
- Investigating alleged misconduct and incompetence by credential holders and applicants;
- Developing, administering and scoring examinations required of credential applicants;
- Collecting and disseminating data about patterns of teacher preparation and credentialing; and
- Analyzing policy issues.

As the commission's responsibilities grew, the relative importance of expenditures associated with the traditional functions of processing credential applications declined. For example, in 1971-72, credential issuance accounted for 67 percent of the commission's expenditures. Twelve years later, in 1983-84, the licensing functions accounted for only 28 percent of the commission's expenditures.

The only "new" function that has generated revenue to offset its costs is the administration of examinations. The commission, in accordance with state laws, charges fees to cover all the costs of developing and administering the examinations. Consequently, the costs of performing the "new" functions have had to be funded from the credential application fee, necessitating a four-fold increase in the fee from \$10 in 1965, to \$40 (the maximum amount allowed under current law) in 1985.

E. PROBLEMS WITH THE CURRENT FUNDING STRUCTURE

Our review indicates that the commission's current funding system is deficient in several respects. Specifically:

1. The current funding structure is not producing sufficient revenue to support the commission's existing programs at their current level. As discussed earlier, our analysis indicates that the Teacher Credentials Fund is approaching a deficit condition. If budget projections turn out to be accurate, the current structure will not provide adequate revenues during the 1985-86 fiscal year. Consequently, the commission will have to make unallocated expenditure reductions of \$200,000 in the current year, in order to balance its budget. Furthermore, unless the Legislature acts to increase the commission's revenues or further cut back its existing programs, the Teacher Credentials Fund will likely run a deficit in 1986-87.

Short-term operating deficits in the Teacher Credentials Fund have occurred in the past. In each case, however, these periods have been followed by periods during which the Teacher Credentials Fund was able to

rebuild its reserve by generating a surplus. We believe it is unlikely that revenues will rebound sufficiently in the next few years to replenish the fund. This is because policies adopted during the past few years will continue to depress the number of credential applicants and therefore the amount of revenue from this source.

a. The Effect of CBEST. Senate Bill 1225 (Ch 536/83) requires all applicants for a teaching credential (applying on or after February 30, 1983) to pass the California Basic Educational Skills Test (CBEST) before a credential may be issued. This requirement appears to have caused a significant drop in credential fee revenue by reducing the number of first-time applicants able to satisfy the regulations for a credential.

From 1982-83 to 1983-84, annual revenue from the fee declined by \$1.1 million, or 27 percent. Since 1983-84, revenue from the fee has increased; however, revenues in 1984-85 were still down 11 percent from the 1982-83 level. It is not clear how the CBEST examination requirement will affect the number of credential applicants in the future. We believe, however, that it probably will hold down the number of applicants and, hence, revenue from the credential fee.

b. The Effect of Credential Reforms. New professional growth requirements and the elimination of the life credential also will affect the commission's credential revenues in the future. Prior to September 1, 1985, credential holders could either renew their credential every five years simply by applying and paying a fee, or by teaching for two years and applying for a life credential which is valid for the "life" of the credential holder.

Under the new requirements, persons holding clear multiple and single subject teaching credentials (which represent the bulk of credential holders) no longer have the option of applying for a life credential. Instead, all persons holding these credentials are required to pay a fee and renew their credentials every five years. Holders of clear multiple and single subject credentials who received their first credential on or after September 1, 1985 are further required to complete an individual program of professional growth every five years, as a condition of renewal. This program must include 150 hours of participation in activities which contribute to competence, performance, or effectiveness in the profession of education.

In the intermediate term, eliminating the life credential and requiring completion of professional growth activities probably will decrease revenues. This is because, under the earlier requirements, the commission received revenue from (1) those who taught for at least two years and then left the profession, but applied for a life credential just in case they ever resumed teaching and (2) those who never qualified for a life credential but continued to renew their credential every five years in case they ever decided to return to teaching. Under the new requirements, the commission will no longer receive revenue from these two sources.

In the long term, however, eliminating the life credential and requiring the completion of professional growth activities probably will result in an offsetting increase in revenue as well as the stabilization of revenues from the credential fee. This is because, once all active

teachers are subject to the new professional growth requirements, each will be renewing his or her credential every five years. Assuming that first-time applicants retain their credential for an average of 25 years, however, it would be 25 years before the flow of revenues from the credential fee stabilizes at the higher level. (At this point, the number of credential renewals would be at a maximum. In succeeding years, renewals from new entrants would presumably be offset by the loss of renewals from teachers leaving the system--thereby resulting in stable revenues.)

2. The current funding structure does not require all of those who benefit from the commission's activities to help fund them. This is not consistent with the "benefit principle"--a commonly-accepted principle of fairness in public finance.

The benefit principle holds that those who benefit from a public service should pay for it in direct proportion to their share of the benefits they receive. Currently, however, many who benefit from the commission's activities do not contribute to the commission's support. Consequently, the credential applicant is having to subsidize, through his/her credential fees, commission activities that benefit others.

For example:

- The investigation of cases involving violation of professional standards benefits the teaching profession as a whole--not just credential applicants;

- The evaluation and approval of programs benefits those institutions whose programs are evaluated and approved;
- The development of regulations governing the credentialing of teachers benefit the teaching profession as a whole--not just credential applicants; and
- The collection and analysis of data on teacher supply benefits the Legislature, and ultimately the general public, as well as the education community in general.

The best example of how the current funding system fails to satisfy the benefit principle involves the CBEST examination. Table 5 displays the estimated "windfall" revenues to the commission that arise because CBEST fee revenue exceeds the cost of CBEST administration. Consequently, persons who take the CBEST examination, in effect, are subsidizing other beneficiaries of commission programs.

Table 5

Commission on Teacher Credentialing
 CBEST Exam Revenues and Expenditures
 1982-83 through 1985-86

	<u>Revenues</u>	<u>Expenditures</u>	<u>Difference (Excess of Revenues over Expenditures)</u>
1982-83	\$767,469	\$830,906 ^a	\$-63,437
1983-84	1,790,465	1,236,381 ^b	554,084
1984-85	1,991,452	1,348,343 ^c	643,109
1985-86	2,039,000	1,680,011 ^c	358,989

- a. Includes CTC costs of \$109,457 and State Department of Education costs of \$107,097.
- b. Includes CTC costs of \$108,145.
- c. Includes estimated CTC costs of \$110,528.

3. The current funding structure does not yield a stable flow of revenues. The majority of the commission's revenue comes from credential fees. Since the demand for credentials--and, hence, credential fee revenue--is unpredictable, the commission can never be sure that it will receive enough revenue to support its activities in a given year. This hinders the commission's ability to conduct long-term planning.

The instability of credential fee revenue would not be as significant a problem if the commission were able to adjust its fee and expenditure levels immediately following a change in credential fee revenue. The commission, however, is constrained in its ability to adjust its fee or expenditure levels quickly.

The commission cannot easily raise the credential fee because it is limited by statute. Furthermore, even after legislation has been enacted to increase the fee, there is a lag before the commission realizes a significant increase in revenues.

The commission is constrained in reducing its total expenditures promptly in response to a decline in credential fee revenue because the expenditures related to credential processing represent only 30 percent of the commission's total expenditures. Hence, the volume of credential applications does not determine the commission's total expenditures. A significant portion of these expenditures are associated with functions such as program evaluation and professional standards which are not related to the volume of credential applications.

Consequently, in order to provide a buffer for the budget when revenues fall below expenditures, the commission has tried to maintain a large reserve in the Teacher Credentials Fund. This reserve has averaged \$1.6 million during the last ten years, an amount equal to 38 percent of average annual expenditures.

4. The current funding structure does not provide useful data on the supply of and demand for teachers. The commission is the state agency responsible for credentialing all teachers and administrators working in California public schools. As such, it is in a position to gather data on the number of persons holding active credentials and provide information about the available supply of certificated school personnel within California. Such information would provide a number of benefits:

- It would help school professionals plan and make career decisions;
- It would assist school districts in developing personnel policies;
- It would aid postsecondary institutions in planning teacher education programs and in recruiting students for those programs;
- It would help prospective students and graduates of such programs to make informed career decisions; and
- It could provide data that would enable the Legislature to fashion appropriate state-level policies that relate to the supply of and demand for teachers.

The current fee structure, however, does not allow the commission to collect this information. This is because the commission only collects data from first-time and renewal applicants, and does not collect information from life credential holders. Consequently, the commission cannot provide such basic information as how many credential holders are:

- Teaching or serving in public schools;
- Teaching or serving in private schools;
- Employed in other capacities in education;
- Employed outside of education (or unemployed) in California;
- Located outside of California;
- Retired; or
- Deceased.

Since life credentials are no longer available, all regular credential holders ultimately will have to renew their credentials every five years or allow them to lapse. This will allow the commission to collect the needed data. It will not be until the year 2020 (when the last holders of life credentials leave the system), however, that all credential holders will be subject to this requirement.

CHAPTER II

CRITERIA FOR ASSESSING THE FUNDING ALTERNATIVES

We believe a new funding system is needed for the Commission on Teacher Credentialing--one that addresses each of the problems discussed in Chapter I. Specifically, we believe that an alternative funding structure should:

- Be fair. Fees should cover the costs of the services provided, so that those who benefit from the services are the ones who pay for them, unless there are compelling reasons for doing otherwise.
- Provide financial stability. The structure should provide a measure of financial stability, so that the commission can conduct long-term planning.
- Provide sufficient revenue. The structure should generate sufficient revenue to fund those services deemed necessary by the Legislature.
- Provide useful data on the supply of and demand for teachers. The structure should yield information on the supply of credentialed school personnel that will help school professionals, school districts, teacher education programs, prospective students and graduates, and the Legislature make informed decisions.
- Be easy to implement. The structure should be easy to implement and have minimal administrative costs.

CHAPTER III

POSSIBLE REVENUE SOURCES

A variety of potential revenue sources are available, or could be made available, to the Commission on Teacher Credentialing, including:

- Credential fees
- Examination fees
- Fingerprint fees
- Accreditation fees
- Registration fees
- General Fund support

In this chapter, we evaluate each of these revenue sources, using the "benefit principle" of public finance. This principle holds that those who benefit from a service should pay for it, unless there are compelling reasons for doing otherwise.

Credential Fees

Use of revenues from credential fees to fund the costs of processing applications and issuing credentials is justified, since the successful applicant benefits from holding a credential.

Examination Fees

Similarly, use of revenues from examination fees to fund the costs of administering examinations is justified, since the person taking and passing the examination derives important benefits from it--particularly, the ability to qualify for a credential.

Fingerprint Fees

Fingerprint fees charged to first-time credential applicants currently are used to support the cost of processing and issuing fingerprint clearances. While the applicant does not benefit directly from fingerprint processing per se, such a fee is justified because fingerprint processing is a necessary element of the credentialing process which does benefit the applicant.

Accreditation Fees

Although "accreditation fees" charged to teacher education programs currently are not imposed, such fees can be justified by the benefit principle. This is because program accreditation directly benefits the institutions since, without accreditation, these institutions would not be able to attract students. Hence, charging accreditation fees to support the costs of evaluating and approving teacher education programs is appropriate.

From 1983-84 through 1985-86, the commission has evaluated (or will evaluate) a total of 393 programs (an average of 131 programs a year) at an average cost of \$3,104 per program (excluding administrative overhead). Thus, an accreditation fee of approximately \$3,100 per program would make this function self-supporting.

We believe that an accreditation fee could be implemented in such a way as to minimize financial hardship to the institutions. The number of teacher education programs offered by postsecondary institutions in California ranges from one to 51, with an average of 12 per institution.

Currently, each of these programs is evaluated approximately once every six years. If the evaluation schedule was staggered so as to spread out costs to individual institutions, the most that one institution would have to pay in any one year would be about \$26,400, and the average amount would be \$6,200.

Registration Fees

A fee charged all those holding a valid credential could be justified by the benefit principle, if the proceeds were used to support those functions of the commission that benefit the teaching profession as a whole--developing standards and regulations, maintaining professional standards, developing examinations, and establishing policy leadership in the field of teacher preparation.

Almost all regulated professions in California impose some form of registration fee on their members. In fact, none of the 36 professions and occupations licensed under the California Business and Professions Code issues a credential that is valid for the life of the holder. All licenses or credentials must be renewed periodically, at a cost ranging from \$10 to \$325. In contrast, the Education Code has provided, until recently, for the issuance of lifetime credentials.

As noted earlier, the Legislature recently repealed the commission's authority to issue life credentials. Hence, it has already taken the first steps toward implementing a registry system--the elimination of the life credential in favor of a renewable credential. The new requirements, however, fall short of providing for a full registry system since they exempt those already holding a life credential.

A comprehensive registry system could easily be established by requiring all life credential holders to register with, and pay a fee to, the commission once every five years.

General Fund Support for Professional Standards Activities

The Commission on Teacher Credentialing has argued that the benefit principle also justifies the use of General Fund revenue to support some of its functions, on the grounds that the benefit from these functions accrues to the public in general--and not just to credential holders and applicants. Specifically, the commission believes that General Fund support is warranted for activities which contribute to the maintenance of professional standards, such as policing the profession and developing legislatively-mandated "competency" exams.

The commission maintains that, in the case of teachers, activities involving the maintenance of professional standards result in relatively smaller benefits for members of the profession (and relatively greater benefits for the general public) than they do in the case of, say, doctors and dentists. The suspension of a teacher who abuses a child, for example, is said to benefit not only the child and his or her parents, but also members of the public at large. This is because the enforcement of professional standards provides greater assurances that all children in the school system will be protected. And, because state law requires all school-age children to attend school, the commission believes that the maintenance of professional standards should be considered a state responsibility warranting General Fund support.

Obviously, the public at large derives benefit from the professional standards and other functions of the commission, as it does from the activities of other boards and commissions. We believe, however, that the question of funding support hinges on who the primary beneficiary is: the profession itself or the public at large.

In the case of virtually all professions regulated by the state, the Legislature has concluded that the benefits to the practitioners are sufficiently large to warrant full support of the regulatory program by the profession itself. The question then becomes: is the teaching profession similar to these other professions or is it unique?

Our analysis indicates that it is similar. We believe that enforcement of professional standards and the use of competency examinations help control entry into the profession, assure a higher quality of service, and maintain a positive image for practitioners, thereby enabling those in the profession to receive higher salaries for their services. On this basis, we conclude that the benefits to the practitioners from regulation are sufficient to warrant full support of the regulatory program by the profession itself.

General Fund Support for Studies and Reports

One area of commission activities for which General Fund support can be justified includes the preparation of certain studies, data collection and reporting. Most of these activities are specifically required by the Legislature, and serve the Legislature's information needs. In general, the Legislature requests information from the commission in order to

improve the effectiveness of programs and policies related to education and the teaching profession. In many cases, the beneficiary of these programs and policies is the public at large, and members of the teaching profession benefit from them only tangentially.

The amount of General Fund support required to fully fund these legislatively-mandated activities in any given year would depend upon the number of studies and reports requested by the Legislature. In 1985-86, one activity that could, in our opinion, warrant General Fund support is the evaluation of the teacher trainee program required by SB 813 (\$31,000).

Another commission activity which primarily serves the Legislature's information needs is the compilation of data on the supply of--and demand for--teachers. In the past, the commission has been unable to provide timely and complete data on teacher supply and demand, largely because it relies on a manual system of processing credential applications. The commission, however, is currently in the process of automating its credential processing system. As a by-product of this effort, the commission anticipates that its ability to provide more useful data on teacher supply and demand will be greatly enhanced.

The Legislature, may, therefore, wish to consider providing General Fund support for the commission's automation efforts, which are estimated to cost approximately \$1.2 million over a four and one-half year period. (Because it is not possible at this time to identify how much of the cost of automation would be directly attributable to the compilation of data on the teaching profession, we are unable to determine the appropriate level

of General Fund support for this activity.) Alternatively, the Legislature could provide a General Fund loan to the commission to support the project's initial costs.

CHAPTER IV
FOUR ALTERNATIVE FUNDING STRUCTURES

The commission's budget currently is supported entirely by revenues from the credential fee, examination fee, and fingerprint fee charged to credential applicants. In this chapter, we describe and evaluate the current funding system, as well as three alternatives to it. These three alternatives would continue to rely on the credential fee for funding credential issuance, examination fees to fund the cost of examination administration and the fingerprint fee to fund fingerprint checks. Beyond this:

- The first alternative would shift the cost of professional standards activities and examination development to the General Fund.
- The second alternative is similar to the first, but would shift cost of program review to a new accreditation fee.
- The third alternative would also rely on an accreditation fee to fund program review, but would also finance (1) standards development, professional standards activities, and examination development with a new registration fee, and (2) certain studies, data collection and reporting activities from the General Fund.

The four funding structures are described and assessed below. The current system and the three alternatives to it are illustrated in Table 6.

Table 6

CTC Functions and Revenue Sources of
Alternative Funding Structures

CTC Function	The Current Structure	I General Fund	II General Fund Accred. Fee	III Accred. Fee Reg. Fee General Fund
Certification Standards and Regulation Development	Credential fee	Credential fee	Credential fee	Registration fee
Credential Issuance	Credential fee (exam fee)	Credential fee	Credential fee	Credential fee
Program Evaluation and Approval	Credential fee (exam fee)	Credential fee	Accreditation fee	Accreditation fee
Professional Standards	Credential fee (exam fee)	General Fund	General Fund	Registration fee
Exam Administration	Exam fee	Exam fee	Exam fee	Exam fee
Exam Development	Exam fee	General Fund	General Fund	Registration fee
Studies and Reports	Credential fee	Credential fee	Credential fee	General Fund

A. The Current Funding Structure

Revenue Sources

- Credential fees
- Examination fees
- Fingerprint fees

Description

Under the current structure:

- Credential fee revenue would continue to support the majority of the commission's functions;
- Examination fee revenue would support the costs of developing and administering the exams, as well as other commission functions; and
- Fingerprint fee revenue would support the costs of processing and issuing of fingerprint clearances.

The current structure will only be viable in the future if the Legislature either reduces the duties assigned to the commission or enacts legislation raising the ceiling on the credential fee (currently, \$40).

Assessment

1. Is it fair? The current structure does not score well in terms of fairness, since some of those benefitting directly from the commission's activities do not help support it, while others contribute more than their "fair share."

2. Does it provide financial stability? The current structure does not provide for financial stability because it relies on an unstable and unpredictable revenue source--the credential fee. In the past, the commission has been able to "stabilize" its funding by building up a large reserve in good years and running down the reserve in lean years. By the end of 1985-86, however, the commission is unlikely to have an adequate reserve to provide for stability.

3. Does it provide sufficient revenue? Credential fee revenue has declined as a result of recent changes in the credentialing law. Consequently, unless the credential fee is increased, it is unlikely that the current structure will provide sufficient revenues to support the commission's current level of operations.

4. Does it provide useful data? Once all credentialed teachers are subject to the new professional growth requirements, the current structure will provide reasonably good data on credentialed teachers in California. Because those holding life credentials today are exempt from the requirement, the data produced by the current funding system will be incomplete for four more decades.

5. Ease of Implementation. Continuation of the current funding structure would not impose any implementation costs on the state. Legislation, however, would be required to increase the maximum fee level.

B. ALTERNATIVE I: General Fund Support for Professional Standards and Examination Development

Revenue Sources

- Credential fees
- Examination fees
- Fingerprint fees
- General Fund support for professional standards and examination development

Description

This funding alternative would rely on the General Fund, rather than the credential fee, to cover the costs associated with the professional standards and examination development activities of the commission.

Specifically:

- Credential fee revenue would support the costs of (1) issuing credentials, (2) developing regulations, (3) evaluating and approving programs, and (4) conducting studies and preparing reports;
- Examination fee revenue would support the costs of administering examinations;
- Fingerprint fee revenue would support the costs of processing and issuing fingerprint clearances; and
- General Fund revenue would support the professional standards function (\$733,000 in 1985-86, excluding administrative overhead) and the development of legislatively-mandated examinations

(\$220,255 in 1985-86, and approximately \$20,197 annually thereafter).

Assessment

1. Is it fair? This alternative would make the commission's funding structure somewhat fairer by reducing the financial burden on applicants for credentials. It would, however, continue to give many members of the teaching profession, who are the primary beneficiaries of the commission's professional standards activities, a "free ride."

2. Does it provide financial stability? This alternative would provide somewhat more financial stability than the current structure, by broadening the revenue base and reducing reliance on credential fee revenue.

3. Does it provide sufficient revenue? This alternative would generate approximately \$750,000 (adjusted annually for workload and cost-of-living adjustments) more revenue to the commission than the current system. (The additional revenue would come from the General Fund.)

4. Does it provide useful data? This alternative would not yield any better data on California teachers than what the current system will produce.

5. Ease of Implementation. This alternative could be implemented without any additional cost to the state. A General Fund appropriation to the commission would simply be added to the annual Budget Act.

C. ALTERNATIVE II: General Fund Support for Professional Standards and Examination Development, and Accreditation Fees

Revenue Sources

- Credential fees
- Examination fees
- Fingerprint fees
- General Fund support for professional standards and exam development
- Accreditation fees

Description

This alternative would differ from Alternative I by relying on revenue from accreditation fees charged postsecondary institutions--rather than on revenue from the credential fee--to support the commission's program evaluation and approval activities. Specifically:

- Credential fee revenue would support the costs of (1) issuing credentials, (2) developing regulations, and (3) conducting studies and preparing reports;
- Examination fee revenue would support the costs of administering examinations;
- Fingerprint fee revenue would support the costs of processing and issuing fingerprint clearances;
- General Fund revenue would support the professional standards function and the development of legislatively-mandated examinations; and

- Accreditation fee revenue would support the costs of evaluating and approving teacher education programs offered by postsecondary institutions (\$437,000 in 1985-86, excluding administrative overhead).

Assessment

1. Is it fair? This alternative would bring about a further improvement in the commission's funding structure by shifting the cost of program evaluation and approval from credential applicants to the true beneficiaries of these activities--the postsecondary institutions themselves. As in the case of Alternative I, however, this alternative would continue to give many members of the teaching profession a "free ride."

2. Does it provide financial stability? This alternative would provide for more financial stability than the current system or Alternative I by broadening the revenue base and reducing reliance on credential fee revenue.

3. Does it provide sufficient revenue? This alternative would generate sufficient revenue to support the commission's existing level of activity without further changes in law. In fact, the additional revenue from the General Fund (\$750,000) and the accreditation fee (\$440,000) could permit a decrease in the credential application fee.

4. Does it provide useful data? This alternative would not yield any better data on California teachers than what the current system will produce.

5. Ease of Implementation. The commission would incur some implementation costs in determining an appropriate fee schedule, and disseminating information and instructions to the postsecondary institutions regarding the new charges. In addition, there would be minimal, ongoing administrative costs to administer the new fee charge. Legislation would be needed to authorize accreditation fees.

D. ALTERNATIVE III: Accreditation Fees, Registration Fees, and General Fund Support for Studies and Reports

Revenue Sources

- Credential fees
- Examination fees
- Fingerprint fees
- Accreditation fees
- Registration fees
- General Fund support for certain studies and reports

Description

This alternative would add to the current funding structure accreditation fee and registration fee revenue, and General Fund support for certain studies, and data collection and reporting activities. Under this alternative:

- Credential fee revenue would support only the cost of issuing a credential;
- Examination fee revenue would support the cost of administering examinations;
- Fingerprint fee revenue would support the cost of processing and issuing fingerprint clearances;
- Accreditation fee revenue would cover the cost of evaluating and approving teacher education programs of postsecondary institutions;

- Registration fee revenue would cover the cost of maintaining professional standards, developing legislatively-mandated examinations, and developing regulations; and
- General Fund support would cover the costs of some of the studies, and data collection and reporting activities which are either specifically required of the commission by the Legislature, or which primarily serve the Legislature's information needs.

Assessment

1. Is it fair? This alternative would come closer than any of the others to satisfying the benefit principle of public finance (those who benefit from a governmental activity should pay the cost, unless there are compelling reasons for subsidizing these persons). It recognizes that all practicing members of the teaching profession benefit from those activities designed to improve the quality and image of the profession.

2. Does it provide financial stability? This alternative would provide for significantly greater financial stability than the current system. It would probably yield more stability than either Alternatives I or II, because registration fee revenue would not be as vulnerable as General Fund appropriations to reductions during recessions.

3. Does it provide sufficient revenue? Assuming appropriate fee levels, this alternative would generate sufficient revenue to support the commission's current level of operations.

4. Does it provide useful data? This alternative would provide useful data on all credentialed teachers and administrators, because all of these credential holders (including holders of life credentials) would be required to register periodically with the commission.

5. Ease of Implementation. The commission would incur significant implementation costs in setting up the registry system. The system would have to be developed, enabling legislation passed, registration information disseminated, notices and forms produced and sent out, registration forms processed, and so forth. Based on data provided by the commission, we estimate that a registry system requiring all credential holders to register with the commission every five years would cost approximately \$290,000 to establish and \$80,000 a year to operate.

CONCLUSION AND RECOMMENDATIONS

A. CONCLUSION

Table 7 shows how the current structure and each of the three alternative structures measure up, using the assessment criteria set forth in the previous chapter. It shows that the current system fares the worst. (In fact, since the current system would not be viable unless the fee level is increased, it would exacerbate the existing inequities.) Alternative I is the easiest to implement, but it does relatively little to ameliorate the problems with the current funding structure. Both Alternatives II and III would provide sufficient revenues and greater financial stability for the commission. We believe the primary difference between these alternatives is that Alternative III would require all of those who benefit directly from the commission's activities (credential holders) to help support the commission.

Table 7
Assessment of
Alternative Funding Structures

Assessment Criteria	The Current Structure	I General Fund	II General Fund Accred. Fee	III Accred. Fee Reg. Fee General Fund
Is fair	Inconsistent with benefit principle	Inconsistent with benefit principle	Partially consistent with benefit principle	Most consistent with benefit principle
Provides financial stability	Unstable	More stable than Current Structure	More stable than I	Slightly more stable than I, II
Provides sufficient revenues	Not sufficient (assuming current fee levels)	Probably sufficient	Sufficient (assuming appropriate fee levels)	Sufficient (assuming appropriate fee levels)
Provides current data	Data on all credential holders not provided	Data on all credential holders not provided	Data on all credential holders not provided	Data on all credential holders provided
Implementation costs	None	None	Minor costs	Approximately \$300,000 initial costs

B. RECOMMENDATIONS

We recommend that the Legislature adopt Alternative III to strengthen the commission's finances and correct the deficiencies discussed earlier in this report. To do so, it should enact legislation authorizing the commission to charge accreditation fees and registration fees, and provide General Fund support for certain studies, data collection and reporting activities of the commission.

Since all practicing teaching professionals benefit from the commission's activities, the benefit principle holds that they should contribute toward the commission's support on an ongoing basis. Hence, we recommend that the credential fee be continued as the primary source of revenue for the commission's activities, and that a registration fee be required of all practicing teachers.

Those postsecondary institutions which offer education programs also benefit from the commission's program evaluation and approval activities. Accordingly, it is reasonable to require these institutions to support the commission through the payment of accreditation fees.

Finally, the Legislature--and, ultimately, the general public--benefits from certain studies, data collection and reporting activities of the commission. The information yielded by these activities helps the Legislature improve the effectiveness of programs and policies related to education and the teaching profession. Hence, it would be appropriate for the state General Fund to support some or all of these activities.

We recommend that the Legislature not provide General Fund support for the professional standards activities of the commission. Although the general public derives some benefit from the commission's professional standards activities, the primary beneficiary of these activities is the teaching profession itself. Accordingly, it is appropriate for the teaching profession to finance these activities through fees. This, in fact, is the policy that the Legislature has followed in funding the professional standards activities of virtually all other boards and commissions in California.

In order to address the commission's short-term funding problem, we further recommend that the Legislature enact urgency legislation to increase the maximum fee charged credential applicants, from the current level of \$40 to a new level of \$50 (the commission estimates that this would provide approximately \$900,000 in additional revenue). This will provide the additional revenue that the commission needs, pending adoption of a new funding mechanism.

In sum, we recommend that the Legislature (1) enact urgency legislation increasing the maximum credential fee level from \$40 to \$50, in order to meet the immediate funding needs of the commission, (2) enact legislation authorizing the Commission on Teacher Credentialing to charge accreditation fees and registration fees, and (3) provide General Fund support for certain commission activities which primarily serve the Legislature's information needs.