Annual Budget Process

The budget development process begins with the development of budget assumptions. The budget assumptions are central to the budget development process and guide the allocation of resources. From February through April, budget assumptions are developed for the next Fiscal Year. The Planning and Budget Committee approves budget assumptions in May to be used to develop the budget for the next Fiscal Year.

Information from a variety of sources is considered in the development of the budget including:

- Institutional Goals and Institutional Objectives;
- Priorities identified through the Institutional Program Planning and Review process;
- Mandates from external agencies; and
- Status of long-term obligations.

During early spring, Units identify and prioritize needs for staffing, facilities, services, and equipment. These unit-level requests for resources are submitted on the Annual Program Planning Worksheet as part of the Institutional Program Planning and Review process. High-priority needs will be funded at the unit level if possible. The Annual Program Planning Worksheets are combined at the Cluster level and are once again prioritized. High-priority needs will be funded at the Cluster level if possible. Beginning with the 2017-18 budget development process, the Planning and Budget Committee approved a process where the Superintendent/President and Vice Presidents identify budget priorities of an institution-wide nature.

The Planning and Budget Committee determines the number of one-time requests that each Cluster may present during the One-time Institutional Prioritization Process. All Clusters submit their list of unfunded, prioritized needs to the Planning and Budget Committee each March. In the Fall, the Planning and Budget Committee will recommend that unencumbered funds from the previous Fiscal Year be used to fund the prioritized list, or recommend that the unencumbered funds be saved for contingencies.

The Planning and Budget Committee determines the number of requests that each Cluster may present for the Ongoing Institutional Prioritization Process. All Clusters submit their list of prioritized on-going needs to the Planning and Budget Committee each March. In order to fund these on-going requests, the Planning and Budget Committee may recommend that new funding sources be used (if available) or that the administration identify current funding sources in order to remain revenue neutral.

The Planning and Budget Committee receives a prioritized list of technology needs from the Technology Committee. The Planning and Budget Committee then determines which Technology needs will be funded from the Technology line item in the budget using the Technology Prioritization Process.

All prioritized requests will be aggregated into a final Prioritized Institutional List to indicate relative needs for One-time and Ongoing requests.

The Planning and Budget Committee establishes the number of requests that each cluster may present during its meeting in March. After that time, Cluster managers are informed about the maximum number of requests to present. They will also be given a Prioritization Form to fill out for each request. This form will be used by the co-chairs to complete a Resource Allocation Rubric for each request. Using a 60-point scale, this rubric weighs each request based on the following criteria:

1. The contribution this proposal will make toward the achievement of Institutional Goals and/or Institutional Objectives;
2. An outcome based on the measurement of student learning outcomes or administrative services outcomes;
3. Data in the Institutional Program Planning and Review;
4. List of recommended priorities from each Unit and Cluster; and
5. Health or safety concerns;

Once this process is complete, Cluster managers will present a narrative to the Planning and Budget Committee for subjective ranking. The Planning and Budget Committee will receive the ranking generated from the co-chairs' use of the Resource Allocation Rubric on the Subjective Ranking Form. To determine the final order, the points from the Resource Allocation Rubric will be combined with the Subjective Ranking, weighting them equally. The results of this process are presented to the Planning and Budget Committee on or before the following Planning and Budget Committee meeting. The process will be assessed annually.

ASSUMPTIONS FOR DEVELOPING 2018-2019 BUDGET

(As presented to the Planning and Budget Committee on 5/15/2018)

Note: Some of the estimates have changed based on the state's final budget and information provided by the Chancellor's Office

The District's budget will:

- Be balanced

- Assume revenue will be based on 8,436 FTES and the effects on various funding sources

- Reflect the 2018-2019 State Budget
  - Recognize any increase/decrease in state funding
    - Increase in Base Allocation $0
    - Deferred Maintenance & Instructional Equipment $211,980
  - Include an escrow account for predicted budget shortfalls, i.e. property tax, RDA funding, student fees, restoration
  - Recognize COLA of 2.71%
  - One-time discretionary funds $0
  - Recognize a deficit factor of 0.5%
  - Reflect any changes to the funding formula approved by the State

- Incorporate the assumptions of the Five-Year Budget Projections

- Carry over FY2017-2018 balances as recommended by the Planning and Budget Committee

- Recognize changes in on-going, 2000, and 3000 (salaries and benefits) due to Step, Column and other movement
  - Recognize change in PERS rate from 15.531% to 18.062%
  - Recognize change in STRS rate from 14.43% to 16.28%
  - Recognize change in Worker's Compensation Insurance premium from 1.04% to 0.97%
  - Assume an inflationary factor of 1.0% for Operational Expenses (5000)
  - Budget current on-going obligations that have not been previously budgeted
  - Increase required level of match by the District for categorical programs when required
  - Increase the District match for categorical programs by the proportionate amount of any salary increases approved for employee groups
  - Budget for long-term obligations
  - Reflect any savings/costs realized through the approval of a separation incentive program
  - Recognize any investment income from the PARS pension stabilization fund

- <u>Recognize Legal, Financial and Statutory Requirements</u>

  The District will develop a budget that:
  - maintains a reserve of at least a six percent (6%) of unrestricted general fund expenditures;
  - meets the fifty percent (50%) law, i.e., at least 50% of the current expense of education is allocated to instructional salary and benefits;
  - provides for staffing levels required by the Board of Governors in relation to Title 5, Chapter 4, Subchapter 3, Articles 1, 2, and 3. This statute is designed to ensure that districts are making good faith attempts to achieve the long-term goal of a seventy-five percent

(75%) to twenty-five percent (25%) part-time faculty ratio; Fall 2017 was 58.41% FT to 41.59% PT
- includes reasonable provisions to cover all known or projected liabilities to the District (e.g., accumulated vacation, sick leave, etc.); and
- meets all statutory and legally mandated income/expenditure requirements

☐ Comply with the Education Protection Account (EPA) requirements for Prop 30 funds designated for instructional salaries

☐ Not exceed appropriations limit as calculated on the Gann Limit Worksheet

2018-2019 BUDGET CRITERIA

(As presented to the Planning and Budget Committee on 5/15/2018)

The purpose of the District's budget is to provide:

- Students with a high-quality, learning-centered education
- The resources and support needed to deliver effective instruction
- The resources and support to facilitate the teaching-learning process
- The means to manage the District in an efficient and cost-effective way

The criteria listed below will be used in developing the budget:

- Institutional Goals and Objectives
- Institutional Achievement Standards
- Priorities identified through the Institutional Program Planning and Review process
- Mandates from external agencies
- Long-term obligations
- Learning Outcomes (student, institutional, administrative)
- Guiding Principles for Budget Reductions due to Budget Shortfall
- Legal, financial or statutory requirements
- Procedural Guidelines

<u>1. Institutional Goals and Objectives & Institutional Achievement Standards</u>

The District provides direct links between resource allocations and planning:

- The Institutional Program Planning and Review process includes the requirement that units address how they contribute to the achievement of Institutional Goals and/or Institutional Objectives and Institutional Achievement Standards.
- Requests for funding are prioritized by the Planning and Budget Committee using a rubric that gives higher scores to proposals that will contribute to the achievement of the Institutional Goals and Institutional Objectives.
- The District has established an Institutional Objectives Account. These funds are allocated based on the extent to which the funding will contribute to the achievement of an Institutional Objective.

<u>2. Priorities identified through the Institutional Program Planning and Review process</u>

The Planning and Budget Committee uses the Resource Allocation Rubric to develop a recommendation of institutional priorities. The rubric weighs each request based on what extent the request is justified by:

- The contribution the proposed item will make toward the achievement of Institutional Goals and/or Institutional Objectives
- An outcome based on the measurement of learning outcomes (student, institutional, administrative)
- Data in the Institutional Program Planning and Review
- Health or safety concerns.

<u>3. Mandates from external agencies</u>

The District will develop a budget that covers mandates for external agencies.

4. Long-term obligations

The District will develop a budget that covers long-term debt obligations.

5. Learning Outcomes (student, institutional, administrative)

6. Guiding Principles when addressing Budget Reductions due to Potential Budget Shortfalls (as adopted by Planning and Budget)

- Protect as much as possible of the core curriculum, programs and services needed to fulfill the mission for the District and California Community Colleges.
- Maintain student access and service throughout the District as much as possible.
- Reduce, combine, suspend, or eliminate services, programs, positions, or other costs farthest from students, instruction, and the support needed for student success.
- Stay flexible, plan for contingencies, and recognize that decisions at the state level may not be made in a timely manner, acknowledging that all units must work together as a college.
- Communicate civilly; gather facts, weigh options, listen, and deliberate together when difficult choice have to be made.
- Any plan would go through the governance process.

7. Legal, Financial and Statutory Requirements

The District will develop a budget that:

- Achieves and maintains a reserve of at least a six percent (6%) of unrestricted general fund expenditures
- Meets the fifty percent (50%) law, i.e., at least 50% of the current expense of education is allocated to instructional salary and benefits
- Provides for staffing levels required by the Board of Governors in relation to Title 5, Chapter 4, Subchapter 3, Articles 1, 2, and 3. This statute is designed to ensure that districts are making good faith attempts to achieve the long-term goal of a seventy-five percent (75%) to twenty-five percent (25%) part-time faculty ration
- Includes reasonable provisions to cover all known or projected liabilities to the District (e.g., accumulated vacation, sick leave, etc.)
- Meets all statutory and legally mandated income /expenditure requirements.

8. Procedural Guidelines

The District will develop a budget that:

- Is balanced
- Is based on planning that reflects both current and long-term district needs
- Makes steady progress upward correcting actual or anticipated structural budget issues (e.g. declining revenue, rising costs, lack of on-going dollars to cover ongoing expenses, etc.)
- Has had campus community involvement and consideration during preparation
- Includes all contractually negotiated costs and expenses
- Reflects the state's economy
- Includes all known and projected increases in fixed costs; identifies significant but unfunded items not included in the budget
- Highlights usual items and/or provides information on substantive changes from previous budgets

- Eliminates the structural deficit annually projecting the trends of the increases to the 3000 account on a three-year basis, minimally, and including this projection as a budget assumption in the development of each year's annual budget. The rate of increase of the 3000s and the subsequent projected costs should be budgeted into each year's annual budget accordingly
- Considers restructuring any long-term debt to minimize annual fiscal impact.

2018-19 FINAL STATE BUDGET

State Budget Overview

On June 27th, Governor Brown signed SB 840, the Budget Act of 2018. The Budget Act reflects the generally positive trend in state revenues since the passage of Proposition 30 in 2012. While there are revenue gains across all major tax categories, the largest positive revision is to the $4.4 billion increase in personal income taxes due primarily to capital gains revenues fueled by the 2017 stock market surge.

The Governor's summary cautions that capital gains have proven to be a highly volatile state budget resource over time, and that the Department of Finance anticipates relatively flat gains over the next few years. Further, the Governor notes that other uncertainties facing the state, including the full impacts of Federal tax policy, the return of market volatility, unknown effects of changes to tariffs, and increased global instability. Finally, the Governor reminds that the current economic expansion has gone on 4 years longer than an average economic recovery, and that while a recession may not necessarily be imminent, it is inevitable.

In total, state General Fund expenditures are estimated at $138.7 billion, an increase of $12 billion over the prior year budget. The final budget includes a fund balance of $3.1 billion and the Rainy Day Fund has grown to $13.8 billion. Given the uncertainty of the times ahead, the budget largely focuses new revenues on one-time expenditures for infrastructure, mental health, and homelessness.

While total General Fund revenues have increased at a strong clip, these increases have not translated to significant changes in the Proposition 98 minimum guarantee. This is due to flat K12 enrollments, modest changes to per-capita income, and the fact that most of the maintenance factor obligation accumulated in prior years have been paid down. The final budget includes $78.4 billion in spending for the K14 Proposition 98 guarantee, an increase of $2.8 billion over the current year.

California Community Colleges

The 2018 Budget Act includes two major reforms for the California Community Colleges:

1) <u>New Funding Formula</u>

In January, the Governor proposed a significant change to the funding formula and provided some modifications to the proposal in the May Revision. Working with the Legislature and college constituent groups, the state arrived at an agreement that will begin phasing the formula into effect as of the 2018-19 fiscal year.

Through the 2017-18 fiscal year, community colleges were funded under what is known as the SB 361 model. Each district received a base allocation grant for each college (amounts vary depending on the number of FTES) and state-approved center within the district, but generated the majority of its general apportionment through the amount of FTES served (one rate for credit and enhanced noncredit and a lower rate for noncredit instruction). Since colleges earned additional funding primarily through increasing FTES, the SB 361 was considered a growth model.

The 2018 Budget Act and corresponding trailer legislation enacted the Student-Centered Funding Formula (SCFF). The SCFF moves colleges away from a pure growth model to one based more on performance and student equity. Under the SCFF, approximately 60% of the system's general apportionment funding will be based on FTES, with 20% based on various success metrics (e.g., number of degree completions, transfers, success in transfer-level math and English courses, etc.) and 20% for a supplemental grant based on the number of low-income students (Pell grant recipients, Promise grant recipients, and AB 540 students). Certain FTES will be excluded from the SCFF calculation and funded the same as under the old model, including non-credit, special admits (e.g., dual enrollment), and incarcerated students. Another notable change is that funding for FTES will be calculated on a 3-year average. The formula will be phased in over three years, so FTES will represent 70% of the funding in 2018-19, 65% in 2019-20, and finally 60% in 2020-21 and thereafter. Correspondingly, the performance grants will increase from 10% to 20% over that timeframe.

To allow for a transition to the new formula, the state has provided a 3-year hold harmless provision. For the 2018-19, 2019-20, and 2020-21 fiscal years, districts will receive the greater of the funding calculated through the SCFF or their 2017-18 revenues as adjusted by COLA. As of the 2021-22 year, all districts would be funded through the SCFF.

When fully implemented, the SCFF will have negative impacts on our district's funding. While summer shift is maintained in the SCFF, calculating funded FTES on a 3-year average reduces the benefit of the shift. Also, the district has proportionately fewer students that meet the supplemental grant categories than the state average, so we should expect funding decreases due to that provision. Through the 2020-21 fiscal year, staff expects the district to be funded under the hold harmless provision, allowing us three years to adjust to the full effect of the SCFF.

2) <u>California Online College</u>

The 2018 Budget Act approved the development of an entirely online college to be administered by the Board of Governors. The focus of the college would be on designing industry credentials that lead to wage gains or promotions, delivered through competency-based instruction. According to the Chancellor's Office, the target group for this instruction is working adults without a postsecondary degree who would benefit from more flexible timeframes to access instruction and other supports than may be typically provided in a standard college classroom timeframe. The budget approved $120 million for this initiative, $20 million of which is ongoing.

Other Adjustments

The agreement reached between the Legislature and the Governor include the following:

<u>Ongoing Funds</u>

- COLA of 2.71% - $173.1 million
- Statewide Enrollment Growth (1%) - $59.7 million
- SCFF Formula Increases - $151.3 million
- Hold Harmless - $58.7 million
- Full-time Faculty - $50 million (no detail yet provided on allocations)
- California Promise Program (AB 19) - $46 million
- Student Success Completion Program - $40.7 million

Selected One-time Funds (note that details are often not available until the Chancellor's Office develops guidelines during the year)

- Part-time Faculty Office Hours - $50 million
- Online Education Initiative - $35 million
- Deferred Maintenance & Instructional Equipment - $28.5 million
- Financial Aid Technology Systems - $13.5 million
- Legal Services for Undocumented Students - $10 million
- Mental Health Services - $10 million
- Hunger-free Campus Grants - $10 million
- Veteran Resource Centers - $2.6 million
- Open Education Resources - $6 million
- Reentry of Incarcerated Individuals Grant Program - $5 million

Policy Change

The Budget Act Consolidates the Student Equity Program, the Student Success and Support Program, and the Student Success for Basic Skills Program into one program. Funds are expected to be used in support of student equity plans.

Challenges Ahead for the District

The district will need to plan carefully for the transition to the SCFF in the 2021-22 year. We continue to see a decline in our core FTES, and the contribution rates for the retirement systems are scheduled to climb for many years. The state has provided base increases of $552.3 million in recent years and can claim that it has prefunded districts with sufficient funds to address retirement system increases through 2020-21 (this issue is addressed elsewhere in the document). There is no guarantee that more increases will be forthcoming.

To maintain balanced budgets, the District will need to address the following:

- Restrain expenditures and explore alternative revenues to manage the transition to the SCFF
- The decline in FTES which reduces revenues
- Increasing PERS and STRS contribution rates
- Avoid committing one-time revenues for ongoing expenditures
- Maintain prudent reserve and contingency funds
- Account for increases in technology costs and other service needs
- Comply with statutes and regulations (e.g., the 50% Law, Full-time Faculty Obligation Number)