THE CONTRA COSTA COMMUNITY COLLEGE DISTRICT
GENERAL FUND BUDGET

OVERVIEW

Effective July 2010 the District adopted the SB361 allocation model as the basis for its budgeting system. In this essentially decentralized budgeting environment, there is a need for formulae and procedures which clearly outline the method used to fairly and impartially allocate funds to the colleges and the District Office and which fix appropriate levels of responsibility for budget administration with the colleges and the District. The chief financial officer of the District has a key role in managing the district budget. With regards to the external environment, the chief financial officer's role is to scan financial, political, economic, and social horizons and advise the Chancellor and College Presidents of emerging situations with the potential to affect the District's financial condition.

Within the District's internal environment, the function of the chief financial officer is one of support and service. This is consistent with the trend toward maximum decentralization of decision making authority and responsibility to the colleges of this District This position provides timely and accurate reports to District groups, develops accurate financial projections needed for future decision making, and communicates financial updates in a timely manner to employees at each college. The Chancellor and/or the chief financial officer meet with the District Governance Council acting as the Budget Committee.

Ongoing communications between colleges and the District Office is essential in maintaining a viable budgeting system. Recommendations on resource allocation guidelines and procedures are encouraged from employee groups, and information relative to finance procedures and estimates is reviewed with them. Full and open disclosure is essential to the District's budget process. Although California Community College finance is complicated, real understanding of the facts and inter-relationships involved in budget decisions is necessary for successful implementation of the budget allocation system.

The budgeting process includes both long-range and short-term planning and provides a linkage to the District's program planning and review efforts and accreditation. The District annually reviews budget decisions in terms of the multi-year budget consequences. Short-term planning is reflected in the annual budget. Fundamental to both long-range and short-range planning is extensive information on all significant phases of operations and costs. The data provide management information to achieve more effective utilization of personnel and financial resources.

I. UNRESTRICTED GENERAL FUND

All funds discussed in this section are accounted for in the District's Unrestricted General Fund (Fund 11).

A. BUDGET DEVELOPMENT

Beginning Balance

A fund's current year beginning balance is defined as the ending fund balance from the prior year. The balance for the Unrestricted General Fund is delineated into the following three categories:

Board designated reserves, including a 5% General Fund Reserve per Board Policy 5033, 5% Contingency Reserve and Reserve for Encumbrances for all locations.College and District Office discretionary reserves, which are unspent allocations from the prior year. The amount is calculated as the college's prior year beginning balance plus prior year actual revenue less prior year actual operating expenditures (see Reserves and

Deficits, page 13, for more information).
1. Unreserved/undesignated fund balance.

Adjustments to Beginning Balance: Adjustments to the current year's beginning balance may occur throughout the budget cycle as the result of the prior year's closing activities. These may include, but are not limited to: audit adjustments, grant disallowances, bad debt write offs, and accounts receivable and liability liquidations. Any increase or decrease in the beginning balance occurring after budget adoption will be identified by source and the adjustment will be applied to the appropriate reserve category listed above.

Enrollment Projections
The initial step in budget development is the projection of resident and non-resident full time equivalent student (FTES) enrollment. These projections are based on an analysis of enrollment history, plans to expand programs, etc. The College Presidents provide information, oversight, and review of this process. Productivity ratios and class size goals are cornerstones to this segment of the budgeting system. The budget calendar and steps are detailed in Business Procedure 18.06.

NOTE: For the district apportionment purposes outlined below, FTES refers to resident FTES only unless otherwise stated. Non-resident tuition is considered local revenue and each college is responsible for achieving its non-resident FTES target.

FTES growth targets will be based on the ratio of base college-funded FTES to total District-funded FTES that each college is charged to maintain. In the event that there is state funding for FTES growth and any college does not reach its growth target, the FTES will be prorated between the remaining colleges based on a revised ratio of funded FTES from the still eligible colleges. If there are to be other considerations for determining FTES growth targets, those will be established by the Chancellor in consultation with the Cabinet.

The colleges' apportionment revenue allocations will be determined by FTES enrollment targets that have been approved by the Chancellor's Cabinet and is the basis for allocation of apportionment revenues to the colleges.

If a college does not meet its FTES target, its allocation will be reduced in accordance with the SB 361 allocation model that allocates revenues as earned on a FTES basis.

In a year with no funded growth, if a college exceeds its FTES enrollment target, it will assume responsibility for absorbing any additional expense incurred without receiving an additional revenue allocation.

If for some other reasons at the end of the fiscal year the district as a whole does not meet its maximum funded FTES base, a strategy will be established by the Chancellor in consultation with the Chancellor's Cabinet.

Revenue Projections based on Enrollment
The next step is the computation of projected income by the chief financial officer. This is primarily the conversion of projected enrollments to dollar amounts derived from the State (the District's base revenue plus cost of living adjustments plus growth) and estimates of other revenue sources based on past experience and/or anticipated changes.
Separate projections are made for restricted funds (which must be used for specific

purposes) and the unrestricted or operating fund. Major emphasis is on the operating fund. Income projections rely upon many assumptions about the future which guide the estimates of future income for the district. The possibility of changing economic and political conditions and the necessary tentativeness of the income total must be accepted and understood. Projected income should not be viewed as an absolute.

An important function of income analysis is to provide a reasonable estimate of the change in income for the budget year compared to the current year. From this difference, any new programs or improvements in programs may be funded in addition, of course, to the necessity of funding incremental and inflationary increases in existing programs. If the forecast is for diminished income, the task is to identify areas to obtain program reductions.

Allocation of Projected Revenue
The District utilizes the SB 361 funding formula to distribute state general apportionment revenue to the colleges. This combination of state general fund revenue, local property tax and enrollment fee revenue make up the majority of district revenue used to fund general operating costs. Each college receives a basic allocation based upon college size and funding for credit FTES, non credit FTES, enhanced noncredit FTES using state funded rates. Apportionment revenue is passed on to the colleges in the same manner as it is received from the state. Colleges are assessed for costs associated with providing centralized services through the District Office, Districtwid*e* services and to fund regulatory costs.

1. Allocation of Apportionment Revenue to Colleges
   The base revenues for each college shall be the sum of the following allocations:
   a. **Annual Basic Allocation:** Each college shall receive an annual basic allocation as prescribed by the SB361 funding formula. The annual basic allocation may be adjusted each year by a State-funded cost of living adjustment (COLA).
   b. **FTES Base Revenue:** Each college shall receive base revenues for credit, non-credit and Career Development and College Preparation (CDCP) non-credit FTES equal to the state-prescribed base rates multiplied by its number of funded base FTES in each category. These allocations may be adjusted each year by the State.

   These annual allocation amounts for the current year are provided in the State Chancellor's Office First Principal Apportionment Report, Schedule C. To project basic allocation revenue for the new budget year during the budget development process, these amounts are adjusted for funding changes anticipated for the new budget year, including any State-funded cost of living adjustment (COLA).

   COLA shall be distributed to colleges as specified in the State Apportionment Notice. The State COLA will also be incorporated into the budgets for the District Office, and Districtwide services. COLA will not be applied to regulatory costs as any increases for these required expenses will be distributed through the college assessments.

2. Allocation of Growth Revenue to Colleges
   Growth Funding: When growth is funded in the final State budget signed by the Governor, growth will be funded prospectively by the District. Subject to district growth cap and other funding limitations, growth dollars will be advanced to the

colleges based on the Chancellor's Cabinet approved annual FTES targets.

Retrospectively, the colleges will be funded for actual growth achieved, subject to the scenarios outlined below, not to exceed the District funded growth cap:

a. All three colleges meet or exceed FTES targets: All colleges will be funded up to target subject to growth funding limitations imposed through the state funding formula (funded growth).
b. One college meets or exceeds FTES growth target and other two do not: The two colleges not meeting their targets will be paid for actual growth achieved. The unrealized growth from these two colleges will be distributed to the college exceeding its target up to the college's actual growth not to exceed the District funded growth cap.
c. Two colleges meet or exceed growth targets and one does not: The college not meeting its target will be paid for actual growth achieved. The unrealized growth from this college will be distributed on a pro rata basis between the two colleges exceeding their growth targets not to exceed the District funded growth cap. Each college will receive its share of the unrealized growth in the same proportion that their actual growth is to the two colleges' total actual growth. For example, assume that unrealized growth for distribution is 100, College A has actual growth of 400 and College B of 200. College A would receive 67% (400/600) or 67 of the distribution and College B would receive 33% (200/600) or 33.

In all cases, when District FTES growth is below the state prescribed growth cap (FTES growth for which the district will be paid), actual growth, if any, will be funded where earned.

Enrollment Decline: If a college experiences enrollment decline below its funded targeted FTES, its budget shall be reduced by its amount of advanced growth funds in the year of the decline based on the Second Period CCFS 320 Report with final adjustment subsequent to filing of Annual CCFS 320 Report in July or as amended in October following fiscal year end. In addition, its state general revenue base will be adjusted according to the state allocation model if actual FTES falls below the funded base.

3. <u>Apportionment Revenue Adjustments</u>
As indicated above, there is a First Period recalculation of apportionment revenue. Any increase or decrease to prior year revenues is treated as an addition or reduction to the colleges' current budget year. If apportionment revenue is reduced from the prior year base for any of the following reasons: a) prospective revenue reduction anticipated in budget development; b) mid-year deficit resulting from insufficient tax revenues or enrollment fees; or c) as a result of end of year adjustment, the District Office and Districtwide services assessments will be adjusted downward, rounded to the nearest whole number, in the same proportion as the reduction is to the District's total revenue from all sources. Regulatory costs are not included in the calculation of this adjustment due to the nature of these financial obligations. If "other state revenue" is reduced, this adjustment does not apply since the magnitude of total revenue from these sources makes any impact immaterial. If "local revenue" is reduced, this adjustment does not apply since colleges have control and benefit from these sources.
If apportionment revenue is increased, the District Office, Districtwide services,

and regulatory assessments, which are based on costs, do not share in the additional revenue.

4. Strategic Shift of Summer FTES

There may be times where it is in the best financial interest of the District to shift summer FTES between fiscal years. When this occurs, the first goal will be to shift FTES from all three colleges in the same proportions as the total funded FTES for each of the three colleges. If this is not possible, then care needs to be exercised to ensure that any such shift not create a manufactured disadvantage to any of the colleges. If a manufactured disadvantage is apparent, then steps to mitigate this occurrence will be developed.

Restoring "borrowed" FTES should occur on the same basis as it was drawn down up to the levels of FTES borrowed. If it cannot be restored in that fashion, care should be taken to evaluate if a disadvantage is created for any college.

Borrowing of summer FTES is not a college-level decision, but rather a District-level determination that is made in consultation and concurrence with the Chancellor's Cabinet. It is not a mechanism available to individual colleges to sustain their internal FTES levels. Attempting to do so would raise the level of complexity on an already complex matter to a level that could be impossible to manage and prove detrimental to the District as a whole.

5. Allocation of Other Revenue Sources to Colleges

This category includes the following:

a. Unrestricted Portion of Lottery – Projected revenue shall be distributed to colleges based on a per-FTES basis as received by the District.
b. Apprenticeship – Revenue shall be distributed to colleges as earned and certified through hours of instruction.
c. Office Hours/Health Insurance for Part Time Faculty – Pass through of revenue shall be made on a per-FTES basis as allocated through the state funding process.
d. Non-resident Tuition – Revenue shall be distributed to colleges based on projected tuition earnings and adjusted for actual.
e. Enrollment Fee Administrative Allowance – Revenue shall be distributed to colleges based on projected enrollment fees and adjusted for actual.
f. Part Time Faculty Compensation Funding (parity) – Revenue shall be distributed as received and actually expended.
g. Other Locally Generated College Revenues -- Revenue that is directly generated by the colleges shall be distributed to the colleges based on college projections and adjusted for actual.

Additional funding received by the District after the budget is adopted, not directly attributable to an individual college, shall be distributed through the allocation model as delineated in the revenue parameters above.

In the event that actual revenues are less than the amounts projected and allocated to colleges for the fiscal year, the college budgets will be recalculated and adjusted accordingly.

Assessments to Colleges for District Services
Each college will be assessed for District Office, Districtwide services and regulatory costs based on FTES (including resident and non-resident FTES).

1. District Office operations: Costs incurred for the operation of centralized services provided by District Office staff including the Chancellor and Governing Board, planning and research, finance, purchasing, payroll, accounting and certain human resources functions. Staff involved in providing these services are located at the District Office site in Martinez.
2. Districtwide services: Costs to support those District functions which are most effectively managed on a centralized basis, including utilities, police services, information technology, human resources, facility planning services, marketing, international education, certain finance and accounting functions, and internal auditing.
3. Regulatory costs: Costs associated with mandated or statutory requirements that are of a non-discretionary nature, such as retiree health benefits, property and liability insurance, the district's annual independent audit, etc.

As an integral part of the budget development process, these three areas of assessment will be reviewed and evaluated regularly. Any change in future assessments beyond the application of the state prescribed COLA will be evaluated by Chancellor's Cabinet in the spring of each year.

Other Centralized Programs
In addition to the centralized services outlined in the assessment section immediately above, certain programs will continue to be administered on a centralized basis and will be funded through a per-FTES assessment. These programs include:
1. locally funded staff development;
2. faculty sabbatical leaves;
3. classified and faculty senate expenses, including release time, per Business Procedures 18.04 and Human Resources Procedure 2090.07;
4. United Faculty release time (2.0 FTE) per United Faculty Contract, Article 3;
5. Local One release time (1.0 FTE) per Local One Contract, Article 7.7.3;
6. Classified Employees Enhancement Program per Local One Contract;
7. the portion of international education that is non-college specific, and
8. State Unemployment Insurance experience charges.

Expenditure Budgets
1. <u>Colleges</u>
   Subsequent to allocation of revenue, each college develops its budget plan. The location budget plans are then consolidated into the total District budget for Board approval. Thus, budgets submitted to the District do not encounter the typical cutting procedures because they are in balance when submitted. The allocations are stretched to meet as many needs as possible in a process involving participation of faculty and other college staff to ensure (1) the resource requirements for educational and support programs are considered, and (2) priorities are developed.

   Colleges are responsible for funding the following programs as part of their budget plans:
   a. locally funded transfer centers;
   b. management sabbaticals;

c. part time faculty office hours;
d. part time faculty health insurance benefit;
e. department chair reassigned time;
f. faculty substitutes;
g. intercollegiate athletics staffing;
h. vacation pay offs.

Each college is independently responsible for developing an expenditure budget that utilizes the level of funding outlined in the revenue sections above. While budgeting decisions are at the discretion of the college, decision making must be mindful of the following budgetary constraints:

a. Allocating resources to achieve the funded level of FTES is a primary objective for all colleges;
b. Requirements of the collective bargaining contracts apply to college level decisions;
c. The State required full-time Faculty Obligation Number (FON) must be maintained. Due to funding implications, care must be exercised to maintain equitable full-time/part-time balance at each college. Full-time faculty numbers, ratios and staffing plans will be monitored on a Districtwide basis;
d. In making expenditure decisions, the impact upon the 50% law calculation must be considered and budgeted appropriately;
e. Care should be exercised in maintaining the public investment in the physical plant, facilities and grounds of the campuses;
f. In order to promote similar levels of support services at each of the colleges, appropriate levels of classified and management staffing need to be maintained.

2. <u>District Office</u>

Development of annual expenditure budgets for the District Office, Districtwide services and regulatory costs are the responsibility of the District Office. Based on projected levels of expenditure for the current fiscal year and taking into account unusual or one-time anomalies, the District Office is responsible for utilizing its assessments to provide centralized services to the colleges that are efficient, cost effective, and responsive to campus needs. The state COLA will be incorporated into the development of the new year budget; however, any change beyond this level of funding will require approval by the Chancellor’s Cabinet.

Long Term Plans

1. <u>Colleges</u>

Each of the colleges shall maintain a long-term plan for facilities and programs. The Chancellor, in consultation with the Presidents, will evaluate additional funding that may accrue to the colleges beyond what the model provides. The source of this funding will also have to be identified.

2. <u>District Office</u>

The District Office and Districtwide services also may require additional funding to implement new initiatives in support of the colleges. The Chancellor will evaluate requests for such funds on a case-by-case basis. The source of this funding will also have to be identified.

Reserves and Deficits
In the SB 361 model, the colleges have greater autonomy but also greater responsibility and accountability. Colleges and the District Office will be required to maintain a minimum-level contingency reserve of 1% of its ongoing operating expenditure budget.

In order to maintain this level of budget reserve, each college and the District Office will be allowed to retain its current year beginning balance (see Beginning Balance, pages 1-2 above for more detail). The combination of the beginning balance and the current year budgeted revenue represents the total resources available. In using these resources to develop the operating expenditure budget, a minimum of 1% of this ongoing operating expenditure budget must be set aside as a contingency reserve. If unspent by year end, this reserve falls into the year-end balance and is included in the beginning balance for the following year.

Reserves may be accrued up to 5% of college or District Office operating expenditures. Any reserves over 5% at a single location will require a plan or explanation of the need to exceed 5%. Should reserves exceed 7%, the amount in excess of 7% will be divided with 60% retained by the location and 40% redirected to Districtwide reserves.

If a deficit is incurred by a college or the District Office for any given year, the following sequential steps will be implemented:

> Step 1 - College/District Office reserves shall be used to cover any deficit generated by that location.
>
> Step 2 - If the college/District Office does not have sufficient reserves to cover the deficit, then the college/District Office shall pay back any shortfall over three years starting the second year immediately following the deficit year. To the degree District-level reserves are insufficient to cover this, an additional per FTES assessment may be necessary.
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> Step 3 - There may be circumstances for which a college or the District Office will find itself in a significantly weakened financial position, making full repayment of one or more of the three scheduled payments extremely difficult. The District Chancellor, along with the chief financial officer and college Presidents, may consider an application for hardship whereby one or more payments are forgiven. When this occurs, the shortfall would come from Districtwide reserves. The draw down against the Districtwide reserves may require higher assessments in subsequent years against all of the colleges on a per FTES basis to replenish the Districtwide reserves.

Districtwide reserves represent minimum reserve levels established by the Governing Board per Board Policy 5033, budget guidelines and budget planning parameters.

B. BUDGET CONTROL AND ADMINISTRATION

Budget Control
Budget control is an instrument for planning because a budget prescribes resources to carry out those plans. This makes it possible to set priorities and maintain control over resources to achieve those priorities. A budget must balance, that is, revenues and other sources equal total expenditures and allocations.

The College Business Officer at each location is responsible for accurate projections which are vital to budget control. The chief financial officer is responsible for Districtwide oversight and compliance. During the course of the fiscal year, the chief financial officer must analyze revenue projections. If updated revenue projections are less than budgeted amounts, recommendations must be developed for resolving the imbalance.

The principal revenue is based upon enrollment and FTES data. Actual summer school and fall semester FTES estimates (based on census) will be available by November 1. At this point, the Chancellor and College Presidents will be advised whether or not actual enrollment varies from that previously estimated.

In mid-January, the above process will be repeated based on First Period Attendance Reports which are due January 15.

Another check point will occur about April 15 when first census week spring semester enrollments are available. State apportionment income for the year will not become firm until the Second Period Apportionment notice is received from the State about June 20.

Budget Administration
To preclude disruptive mid-year reactions to errors in original projections, minimum reserves of one percent of the operating fund expenditure budget for each college are required (see Reserves and Deficits section above). There is also a reserve or contingency available to the Board to meet unanticipated needs or emergency situations.

Once the funds are allocated to a college, that college administers its expenditure budget for the year and is held responsible for so doing in accordance with Business Procedure 3.17, which is consistent with the allocation process. The allocation system at the college level fixes the budget responsibility at the organizational unit level (dean, senior dean, administrator, etc.).

Flexibility in making budget transfers within available budget balances is permissible as delineated in Business Procedures 3.17 and 3.22 and Board Policy 5031. Overspending is not permitted. All financial transactions, including certain budget transfers, require Board approval, either by ratification or approval in advance for larger items.

Budget Reports
An account balance report and a detailed expenditures report are available to all organizational units. Reports are available also at summary levels for use by the College Presidents. Finance system information is also available on-line for immediate inquiry as to budget account status and expenditure transactions detail.

This system ensures a non-deficit financial operation by establishing a reserve and allocating available money only. Budget balancing and constant monitoring at various levels throughout the year provide proper protection.

II. RESTRICTED GENERAL FUND

All funds discussed in this section are accounted for in the District's Restricted General Fund (Fund12).

A. BUDGET DEVELOPMENT AND CONTROL

In addition to the general principles and practices of budgeting outlined above, categorical funds require specialized budget development and control. These funds originate from a variety of state, federal and private sources. They are allocated to the district and/or the colleges with a wide range of specific requirements and restrictions for program operations and budgeting, periods of expenditure, periodic reporting requirements and financial/program auditing. Depending on the source of the allocation or grant, the budget year may coincide with the district's fiscal year, or it may require accounting for revenue and expenditures in a different fiscal year period (e.g. federal grants typically use an October 1 to September 30 fiscal year). In some cases, allocations and grants may extend to multiple years and require special oversight. Because these requirements and restrictions are different for each allocation or grant, budget development for these funds is necessarily done on an individualized basis.

College Specific Allocations and Grants
In cases in which the funds come to the district as a specific college allocation or grant, that college will receive the funds directly and will assume responsibility for:

1. planning the program and developing a budget that meets the requirements of the grantor;
2. managing the program and associated budget for the lifetime of the allocation or grant;
3. identifying and working with the District Office to resolve any issue that might otherwise result in disallowed or questioned costs;
4. preparing accurate interim and final program and financial reports and submitting them to the grantor in a timely manner, as required; and
5. providing staff services to auditors for program and/or financial audits, as required.

In these cases, the District Office oversees and monitors this process and assumes responsibility for:

1. reviewing and certifying program plans and associated budgets prior to submission to the grantor for compatibility with district rules of operation; standards for purchasing; policies and practices for the hiring, compensation and evaluation of grant funded positions;
2. ensuring ongoing compliance of all program and budget requirements during the life of the allocation or grant;
3. identifying and working with the college to resolve any issue that might otherwise result in disallowed or questioned costs, and
4. reviewing and certifying interim and final program and financial reports prior to submission to the grantor.

Non-College Specific Allocations and Grants
When funding is not college specific, allocation to the colleges will be in the same manner as provided to the District by the grantor, unless there are compelling educational reasons to do otherwise. Certain state allocations, such as EOPS, DSP&S, and Matriculation, have restricted expenditure requirements that determine allocations to colleges. Federal, state, or private grants will be allocated and administered per the grant agreement.

In cases in which non-college specific funding is allocated to the colleges for management, the colleges and the District Office assume responsibilities as outlined in the College Specific section above. In cases in which funding remains at the District level, the District Office assumes full responsibility for management of the funds as outlined in the College Specific section above.