

9th Annual Budget Forum

April 2014



Presenters:

- Helen Benjamin
 - Chancellor
- Gene Huff
 - Executive Vice Chancellor
- Jonah Nicholas
 - Associate Vice Chancellor
- Arzu Smith
 - Director of District Finance Services



Topics

- District Budgeting Process
 - The SB-361 Model
 - District data
- Current Economics
 - State and national data
 - Legislative Analyst's Office (LAO) Data
 - Proposition 30
- District Finances
 - FY 2013-14 Budget and FTES Update
- Overview of the Governor's Budget Proposal
- Looking Forward
- Questions and Answers





District Budgeting Process
The SB-361 Model
(4th year since implementation)

How the Model Works



Step 1 - Revenue is pooled



Step 2 – Districtwide assessments taken for known, off-the-top expenses



Step 3 – Remaining revenue distributed to all sites

Step 1 – Revenue is Pooled

- Apportionment (currently \$4,636 per resident FTES, about \$131M)
- Base allocations (flat rates given to colleges and centers, about \$13M)
- Lottery (\$126 per FTES, about \$4M)
- Non-resident tuition (about \$13.5M)
- Other miscellaneous (about \$1M)



Step 2 - Expenses

- Commonly referred to as “assessments”, these expenses are “off-the-top” and decrease the amount of revenue that is distributed
- Fluctuates year-to-year, but these assessments total around \$22M annually
 - Contractual Costs (sabbaticals, release time, staff development etc.)
 - “Regulatory” Costs (retiree health benefits, audit, elections, insurance, utilities, etc.). The retiree health benefits total approximately \$11 million
 - Committed Costs (legal, IT maintenance agreements, committed contributions etc.)



Step 3 – Distribute Remainder

FTES Goals established



Apportionment revenue + non-resident tuition + lottery



Subtract out Districtwide Assessments (all sites, including the District Office, share in these expenses)



Revenue Remainder – 10.647% to District Office



Base Allocations to colleges and centers



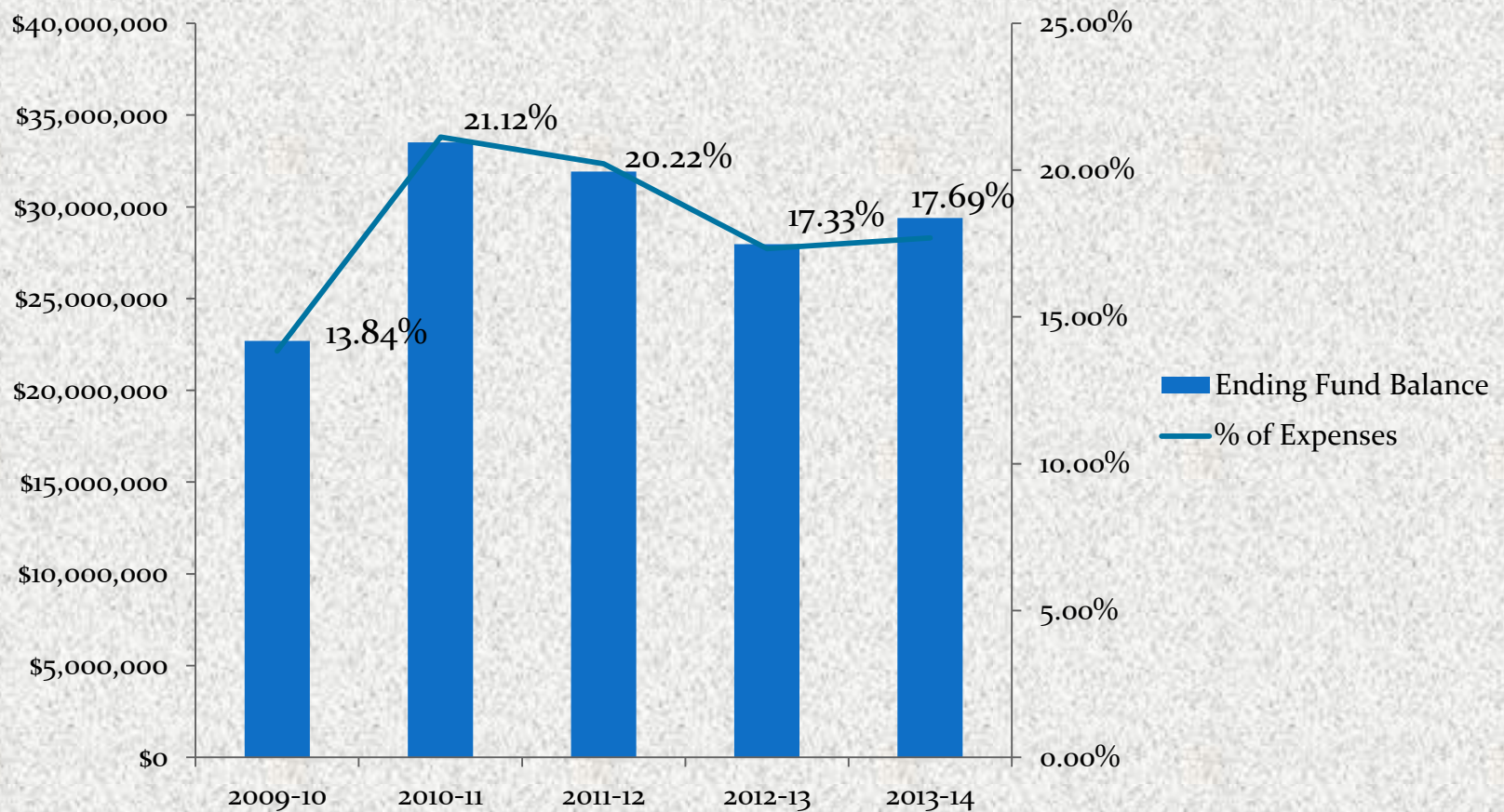
All else split amongst colleges proportional to respective FTES goals

4 years later...

- Overall, the District and its individual colleges have been pleased with the SB-361 model
 - De-centralizes budgeting
 - Creates accountability and incentives
 - Is perceived as fair
 - Has worked in years of growth and decline
- District recently updated the funding model business procedure

Results since the SB-361 Model

Unrestricted General Fund, Operating Ending Fund Balance



District Snapshot

- Though smaller than it once was, the District is still one of the 10 largest community college districts in the state

Funded FTES at peak
(FY 2007-08):

30,838

Budgeted FTES in
2014: 28,367

Reduction of 2,471

2,471 FTES equals
approximately \$11.5
million in
apportionment
funding reductions

Total funded FTES
fluctuating

2010-11: 30,084

2011-12: 27,771

2012-13: 27,771

2013-14: 28,367*

**Budgeted*

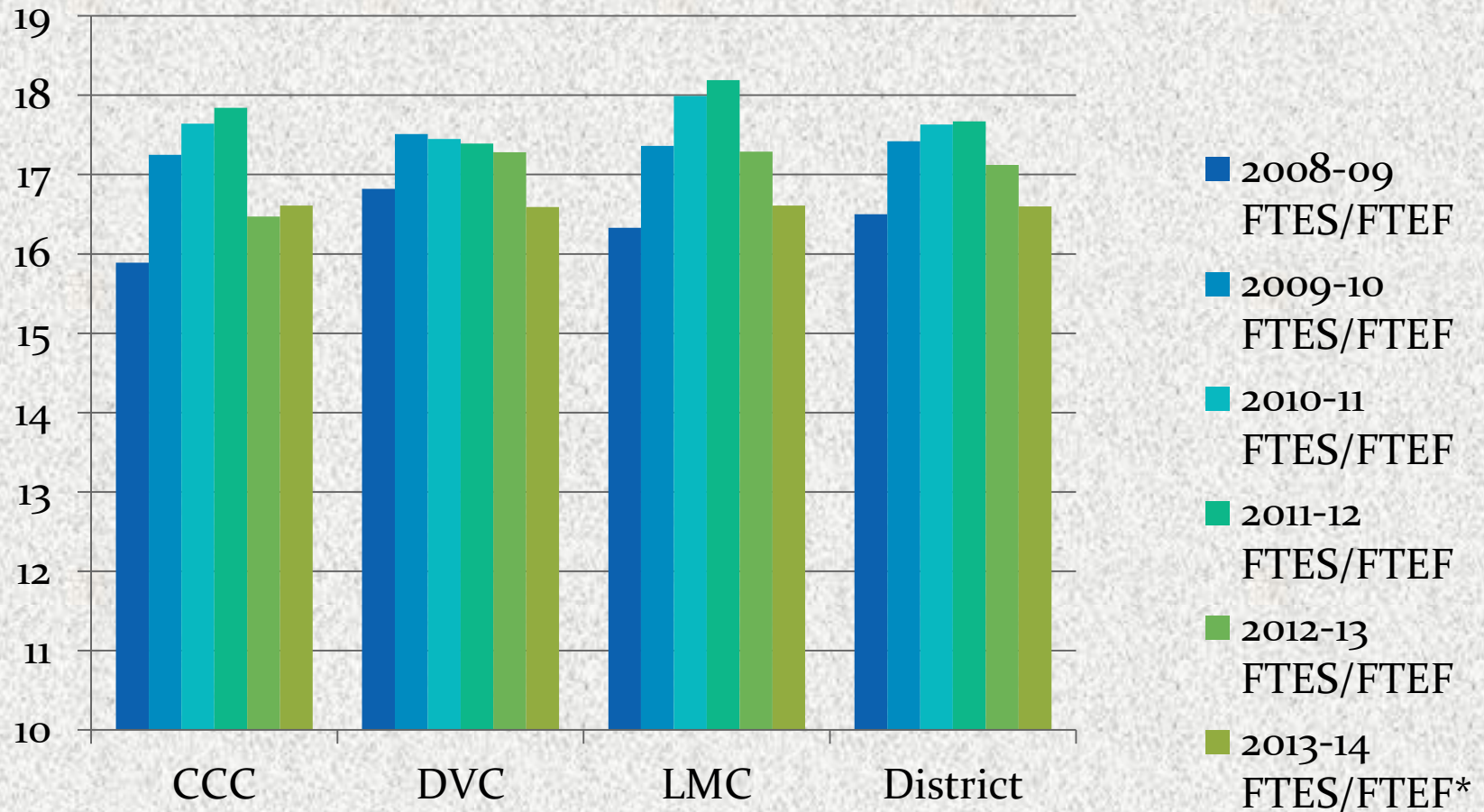
The District is a major
employer within
Contra Costa County:
3,105 employees

(includes part-time faculty, full-
time faculty, classified and
student employees)

2013-14 salaries
projected to be \$5
million more than last
year; still \$6.2 million
less than in 2009-10

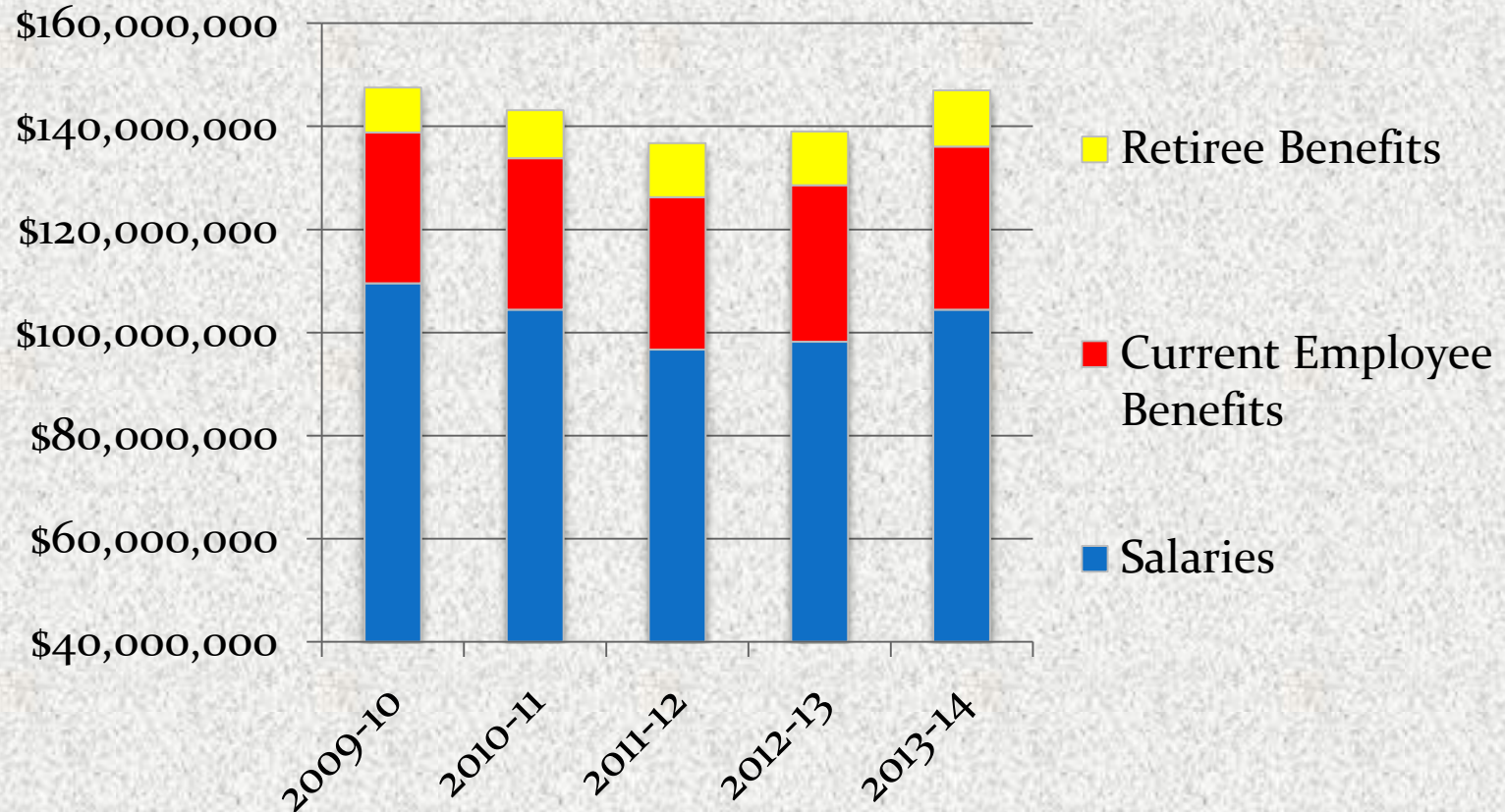
Benefit costs for
employees,
particularly retirees,
continues to be a
significant concern

Productivity Ratios by site



**FY 2013-14 is a projected number*

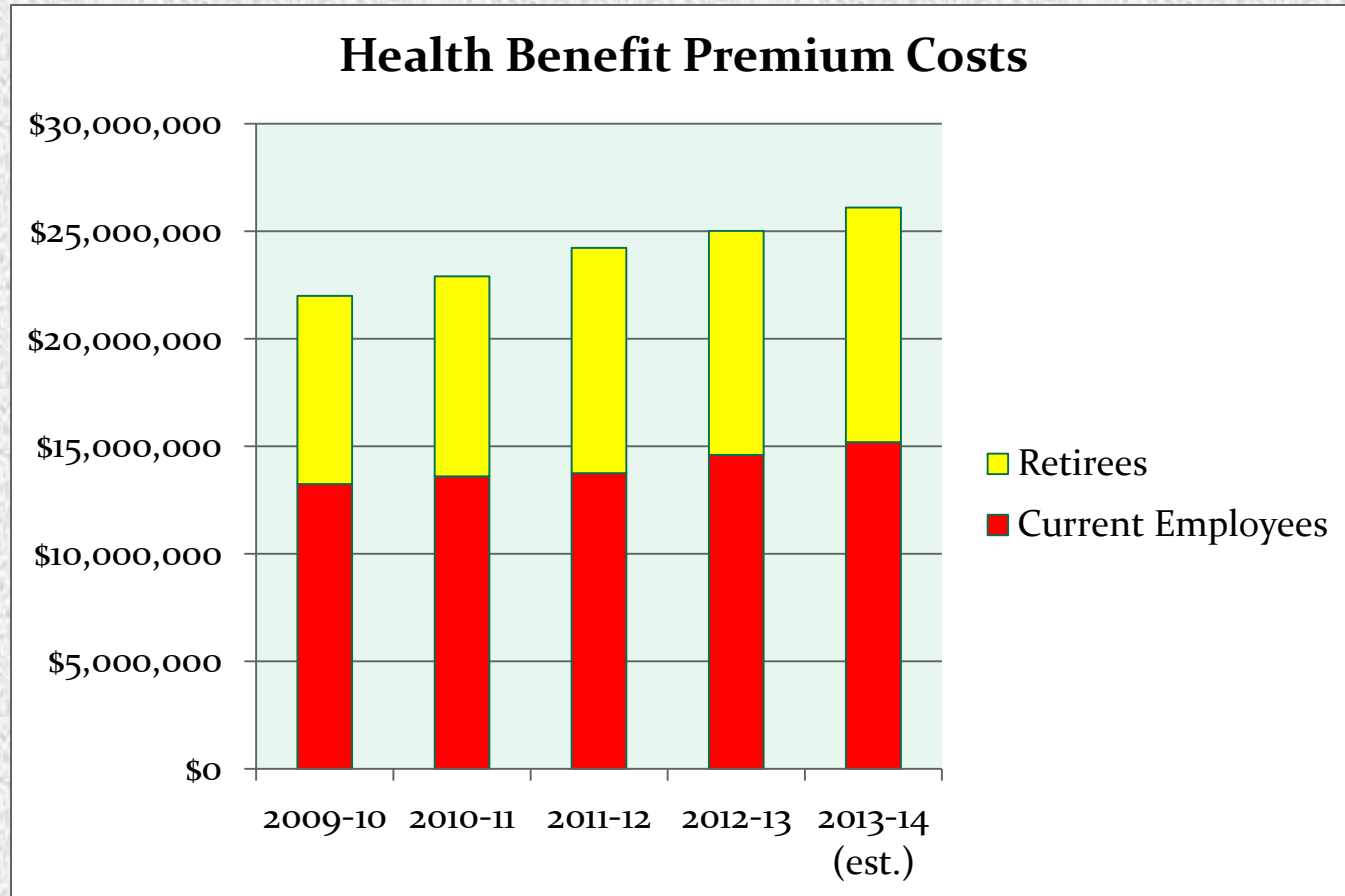
Salary & Benefits



Cumulative Totals:

| | |
|----------|---|
| 2009-10: | \$147.5 million (Total benefits at 34.6% of salary) |
| 2010-11: | \$143.1 million (Total benefits at 37.0% of salary) |
| 2011-12: | \$136.8 million (Total benefits at 41.4% of salary) |
| 2012-13: | \$139.0 million (Total benefits at 41.5% of salary) |
| 2013-14: | \$147.0 million (Projected total benefits at 40.7% of salary) |

Health Benefit Premiums



Retiree premiums are not inclusive of the contributions to the irrevocable trust (FY 2012-13 at \$8.8 million) or the \$1 million off-the-top committed obligation assessment

Current Economics



Economics – National vs. State



National Data

- Unemployment Rate: Fell 1.2% in 2013
- Unemployment Rate currently at 6.6%
- US GDP grew 2.4% in the 4th quarter of 2013
- US GDP projected to have a real growth rate of 1.9% in 2013 (still finalizing) and 2.8% in 2014

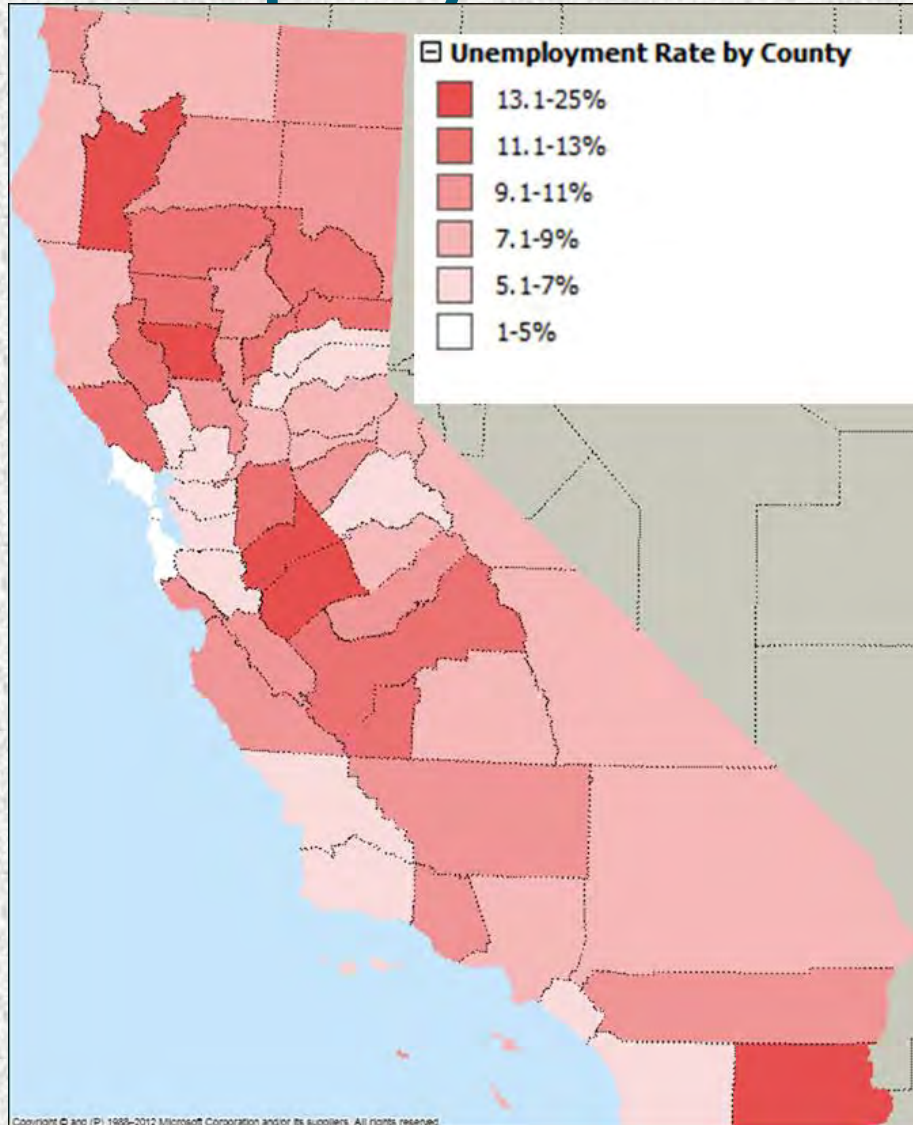


California Data

- CA Unemployment Rate: Fell 1.5% in 2013
- CA Unemployment Rate currently at 8.3%
- Bay Area metro unemployment rate at 5.6%
- CA GDP growing faster than the national average (3.5% in 2012, latest data available)
- CA likely to become the world's 8th largest economy again

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, and International Monetary Fund

Unemployment varies widely



Notable Counties:

Alameda: 6.3%

Contra Costa: 6.4%

Los Angeles: 8.8%

Marin: 4.2%

San Diego: 6.4%

San Francisco: 4.8%

Results of the improving state economy

Figure 1

LAO Projections of General Fund Condition

General Fund and Education Protection Account Combined (In Millions)

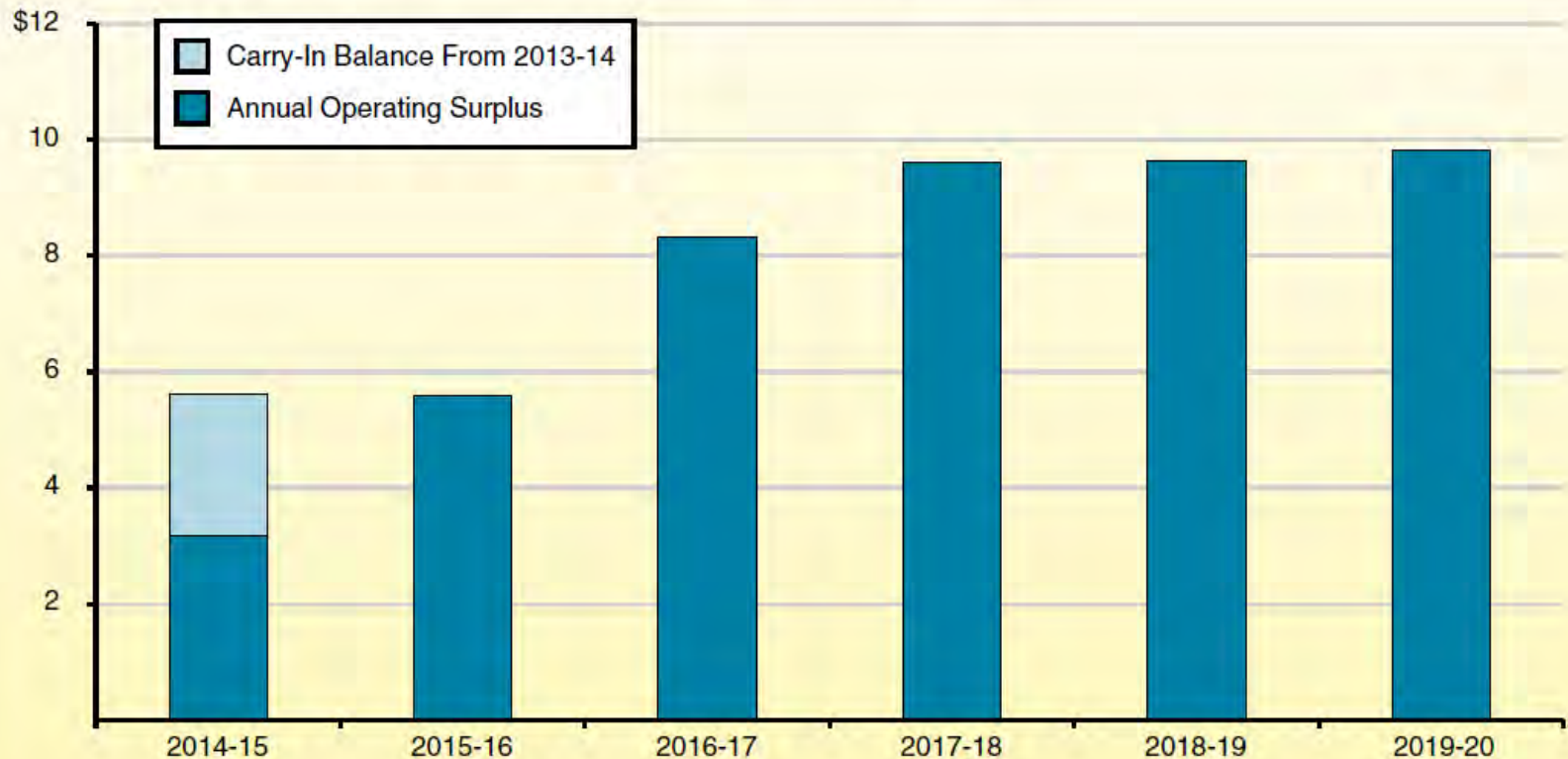
| | 2012-13 | 2013-14 | 2014-15 |
|--------------------------|--------------|----------------|----------------|
| Prior-year fund balances | -\$1,637 | \$852 | \$3,061 |
| Revenues and transfers | 99,841 | 101,847 | 107,617 |
| Expenditures | 97,352 | 99,639 | 104,436 |
| Ending fund balance | \$852 | \$3,061 | \$6,242 |
| Encumbrances | 618 | 618 | 618 |
| Reserve | \$234 | \$2,443 | \$5,624 |

LAO Projects surpluses, largely thanks to Proposition 30

Figure 2

Operating Surpluses Projected Throughout Forecast Period

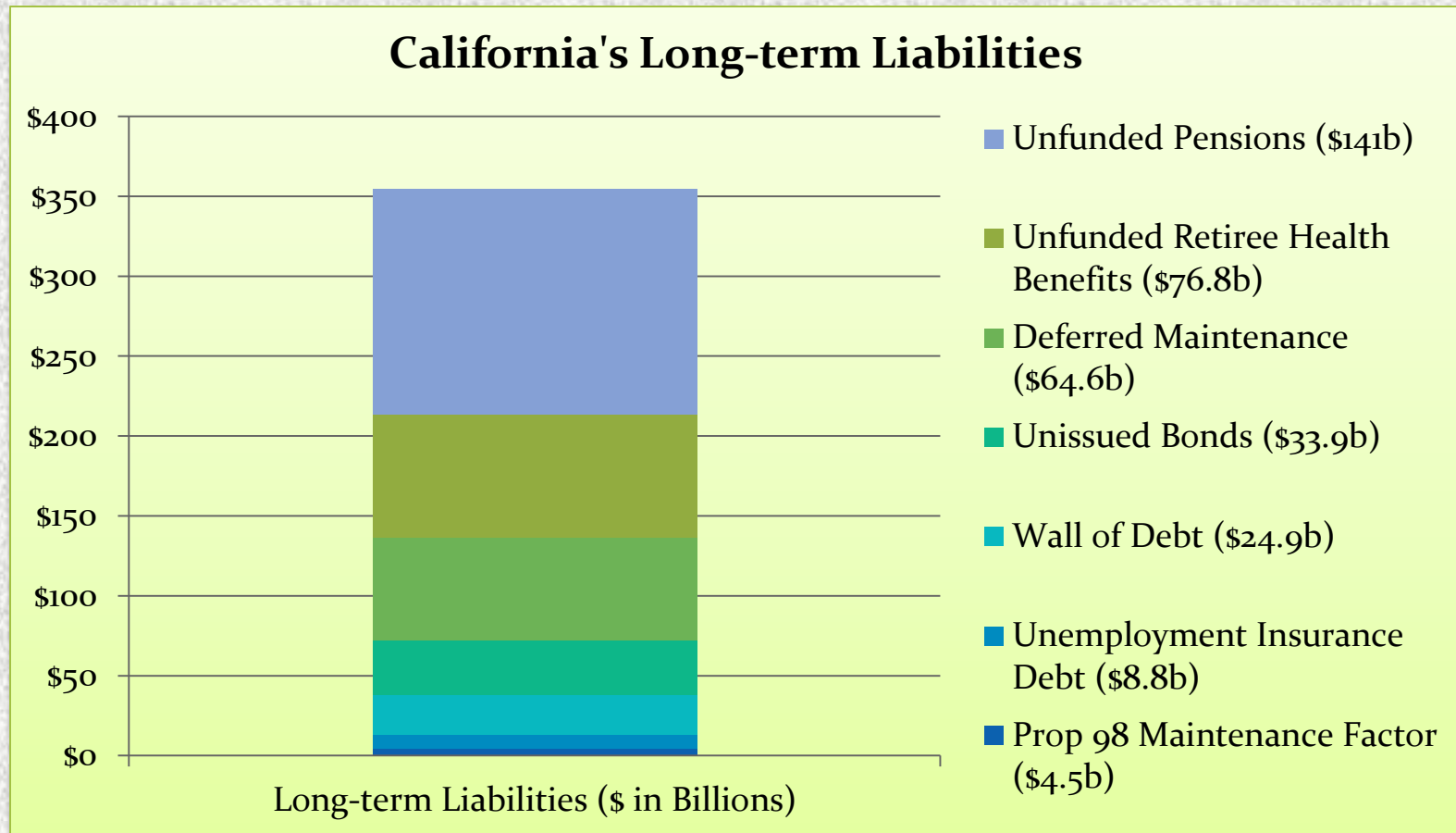
General Fund and Education Protection Account Combined (In Billions)



Now in second year of Prop 30

- Proposition 30 fades out in two phases
 - Increase in personal income tax for high-wage earners sunsets at the end of 2018 (calendar year)
 - Increase in sales tax sunsets at the end of 2016 (calendar year)
 - Is generating about \$7 billion annually, the bulk coming from the personal income tax for high-wage earners
 - Provided the District with \$21 million in FY 2012-13
- Proposition 30 has helped stabilize the K-14 system and provides the District with a level of funding certainty
 - A temporary solution
 - Other challenges have emerged, particularly in enrollment

Unaddressed “Wall of Debt” and other liabilities over \$350 billion



Source: Governor's Budget Summary 2014-15

District Finances



2013-14 Budget Update

- Adopted Budget

- Was proposed with a structural surplus (revenues greater than expenses) of approximately \$1.4 million
 - Included COLA of 1.57% (first since FY 2007-08) and growth/access of 2.1%

- FTES Goals

- Revenue was budgeted and distributed based upon the District achieving and receiving funding for 28,367 resident FTES
- DVC and LMC budgeted for the entirety of the growth/access FTES; CCC opted to remain at its existing base
- Summer FTES started strong, growing 17% year-over-year

2013-14 Budget Update

- Fall and Spring semesters have been flat or slightly down year-over-year
- District Impact
 - FTES actuals are falling short of target by about 975 as a District (-3.4%)
 - CCC short approximately 268 (-4.8%)
 - DVC short approximately 367 (-2.4%)
 - LMC short approximately 340 (-4.4%)

| | Resident FTES Goal | Estimated Resident FTES Achieved | Shortfall |
|-------------------------|---------------------------|---|------------------|
| CCC | 5,581 | 5,313 | (268) |
| DVC | 15,035 | 14,668 | (367) |
| LMC | 7,751 | 7,411 | (340) |
| District Overall | 28,367 | 27,392 | (975) |

2013-14 Budget Update

- FTES Challenges

- Student demand has softened, especially in northern California where the economy is better than in southern California
- Although course hours and section count are up, we aren't seeing the enrollment we'd like
- **The District is struggling to reach its target of 28,367 FTES and is considering borrowing FTES from summer 2014**

- Stability

- The District utilized this mechanism last year when it did not meet its base FTES; **not an option** in FY 2013-14

- Borrowing

- Without borrowing, the District will only be funded for the FTES it earns
- The 975 FTES the District is short of its target is worth \$4.5 million
- Summer 2013 generated over 2,700 resident FTES; so the potential to borrow is there

2013-14 FTES Challenges

• Options

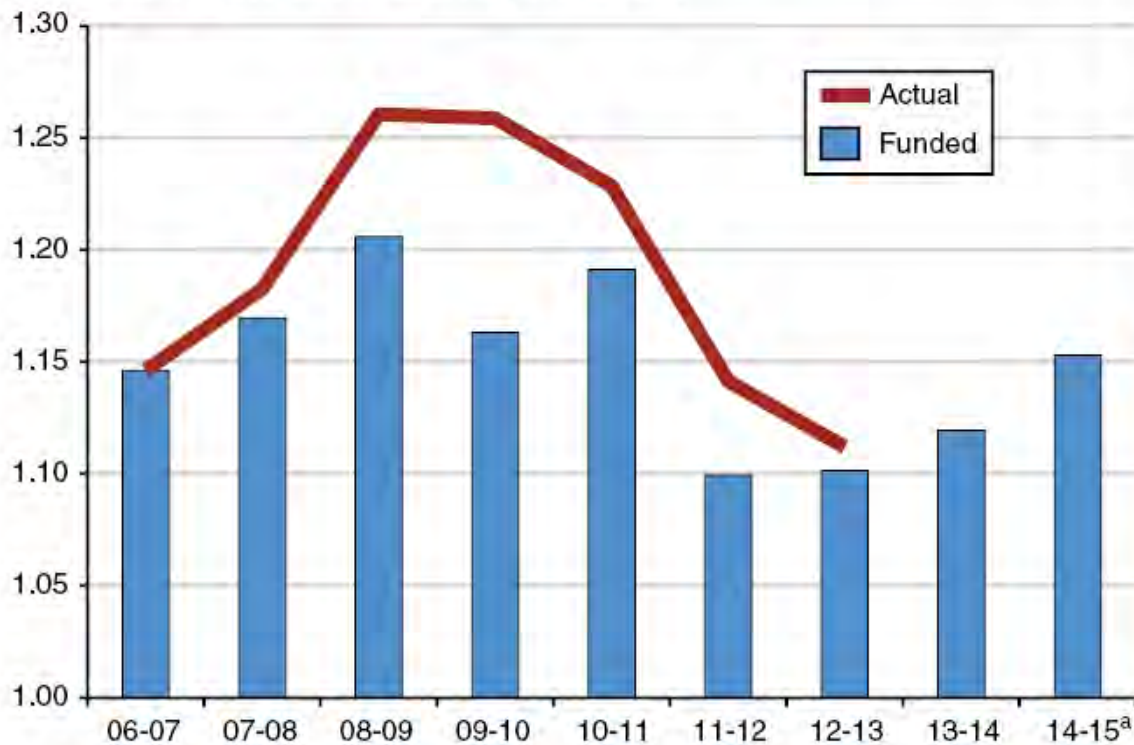
- Collect funding for only the FTES the District achieves
 - The District budget would see reduced revenue of approximately \$4.5 million
 - Will still have the opportunity to earn back its base FTES in FY 2014-15
- Borrow from Summer 2014
 - The District would be able to capture available growth funding
 - Allows the District to come off stability in FY 2013-14 and establish a new, higher FTES base funding of 28,367
 - Would have to make-up the summer FTES that were advanced to FY 2013-14 or else go on stability again (or borrow again from Summer 2015)

CA Community College System FTES History

Figure 8

CCC Enrollment Has Experienced Significant Ups and Downs in Recent Years

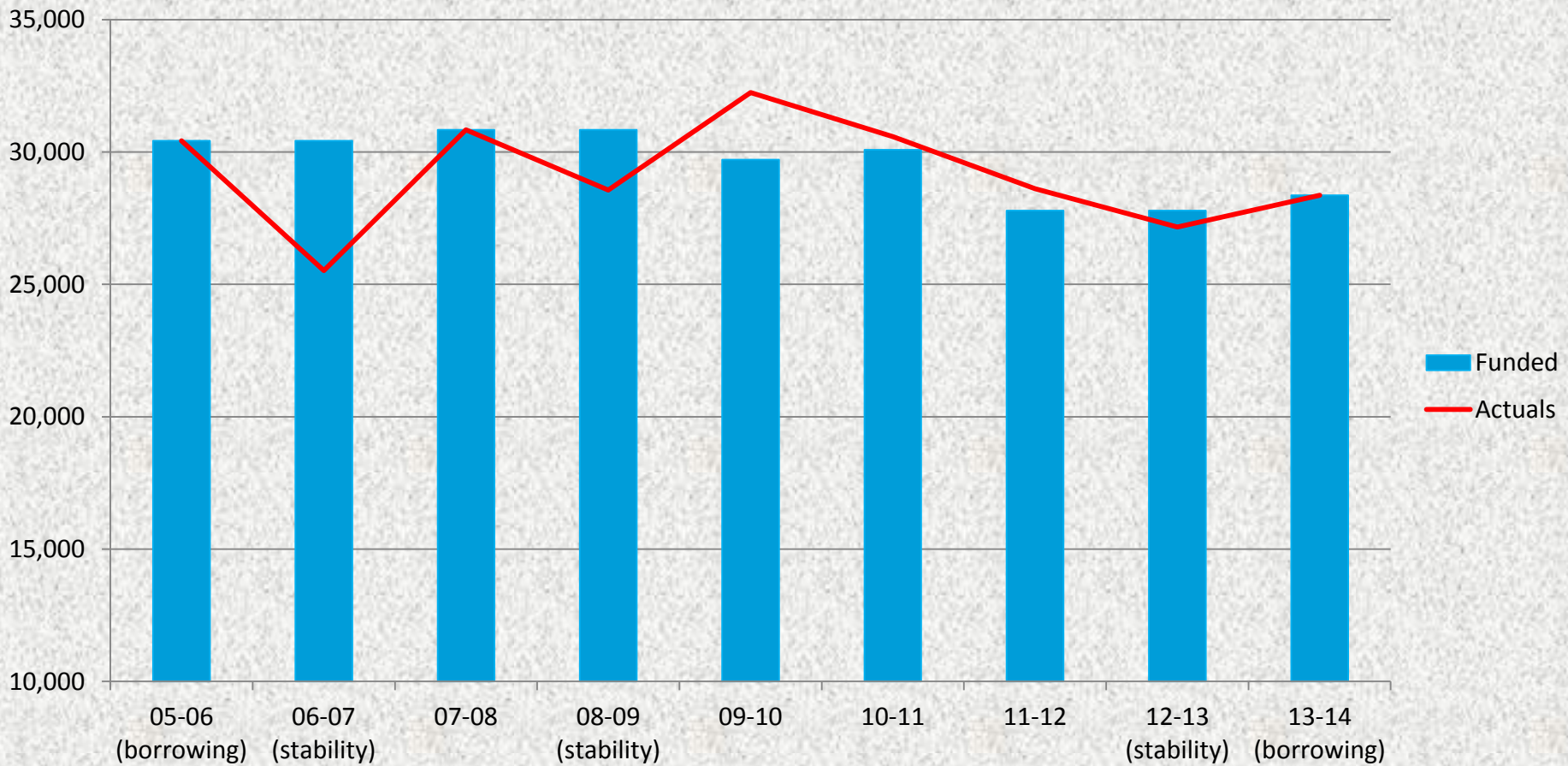
Full-Time Equivalent Students (In Millions)



^a Reflects Governor's proposal.

District FTES History

CCCCD FTES History



Decision Impact on FY 2013-14 and beyond

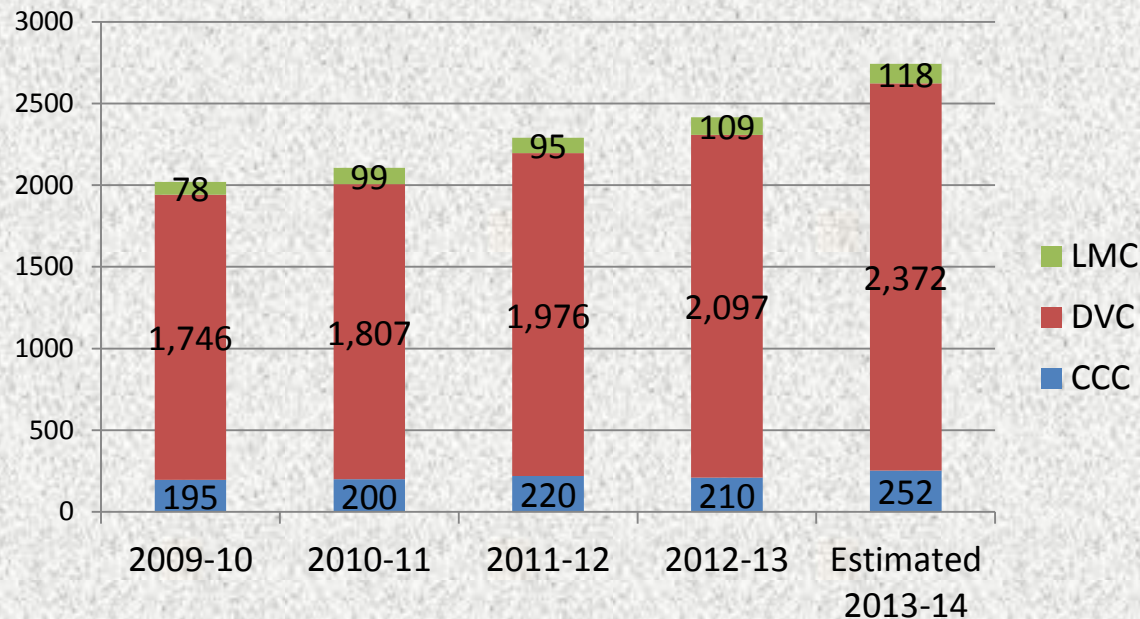
- Budget Impact
 - The colleges are funded in our revenue allocation model by FTES
 - The strategy that is chosen (receive funding for actual FTES achieved or borrow from Summer 2014) will have an impact on the amount of revenue that each site receives in FY 2013-14 and FY 2014-15
- Size Impact
 - Whichever strategy is ultimately decided upon, the District must be innovative in its course offerings and outreach to increase the demand for its services; it needs to grow its FTES
 - This will require the help of all employees (instructional and non-instructional); we all have a stake in student success
- Decision will be made in the coming months; the District has until October to finalize

Other FY 2013-14 Highlights

- Non-resident students

- Estimated to serve over 2,700 non-resident and international students in FY 2013-14
- These students provide approximately \$13.5 million in local revenue for the District and have shown strong year-over-year growth.

Non-resident FTES History



The 2014-15 Budget:

Overview of the Governor's Budget



Highlights of Governor's 2014-15 Proposed Budget

- Highest general fund budget in state history at \$106.8 billion
- Strong growth in Prop 98 guarantee
 - \$61.6 billion in FY 2014-15 (11.4% increase)
 - \$3.3 billion in one-time recalculations
- Community Colleges
 - COLA of 0.86% (up to \$1.2 million for the District)
 - Growth/Access funding of 3% (up to 850 FTES, \$4 million for the District)
 - Student Success and Support Program receives an additional \$200 million
 - Use of one-time funds to pay back system deferrals, possibly to zero



Proposed Policy Matters

- No real significant or shocking proposals
 - Last year the Governor advocated for funding to be based upon completion rates and for a 90 unit cap
- \$46 per unit enrollment unchanged
- Adult Education – the Governor reiterated his commitment to provide funding in FY 2015-16 to implement plans being developed by regional adult education consortia
- A constitutional amendment that will smooth year-to-year school spending to attempt to alleviate the drastic cuts that have occurred in the past
 - Details unclear on this; more to come



Overall

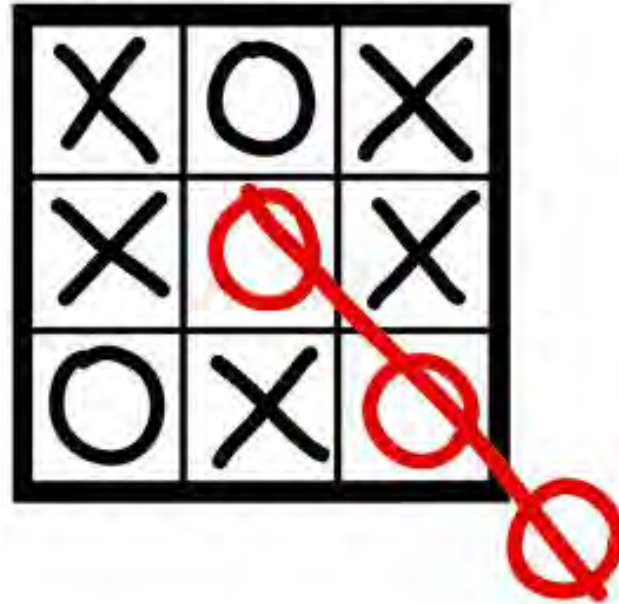
- Strong budget for community colleges in that money is on the table
 - Nearly all the money is in growth/access
 - The District would strongly prefer more COLA
- Governor is committed to paying down debt and long-term obligations
- Despite the largest general fund budget in history, the proposal has only a modest increase in ongoing spending

Latest News

- Waiting for the legislature to give its feedback on the Governor's proposal
 - There will be some changes proposed between now and the May revise
- Indications are the May revise will show greater revenue growth than the Governor's proposal
- Official budget to be adopted by June 30, 2014

Looking Forward

**THINK
OUTSIDE
THE BOX**



June 2014 Bond Measure

- During the February meeting, the Governing Board approved a \$450 million measure be put on the ballot
 - Largest bond measure the District has ever sought
 - Polled well (mid 60s), leaving the District cautiously optimistic (55% approval needed for passage)
- Will renovate existing facilities and build additional ones at each site
 - If passed, the construction of the Brentwood Campus will begin

Bond Measure – Contra Costa College

- Construct a new science and allied health center, or modernize current spaces housing the science and allied health educational programs
- Modernize or construct a campus operations building
- Modernize the gym annex, gymnasium, locker rooms and other physical education facilities

Bond Measure – Diablo Valley College

- Modernize the engineering technology building
- Construct a new science and learning center complex
- Modernize or construct a new art building
- Modernize the physical education complex

Bond Measure – District Office

- Seismic safety upgrades
- Modernize or construct a public safety station at CCC
- Modernize or construct a public safety station at LMC

Bond Measure – Los Medanos College

- Modernize the college complex building
- Construct a new student activities building
- Modernize the physical education, gym, and aquatics facilities

Bond Measure – San Ramon Center

- Expand the San Ramon Center, including, but not limited to:
 - expanded parking
 - expanded space for library services
 - improvements to classrooms and labs for transfer and career technical programs

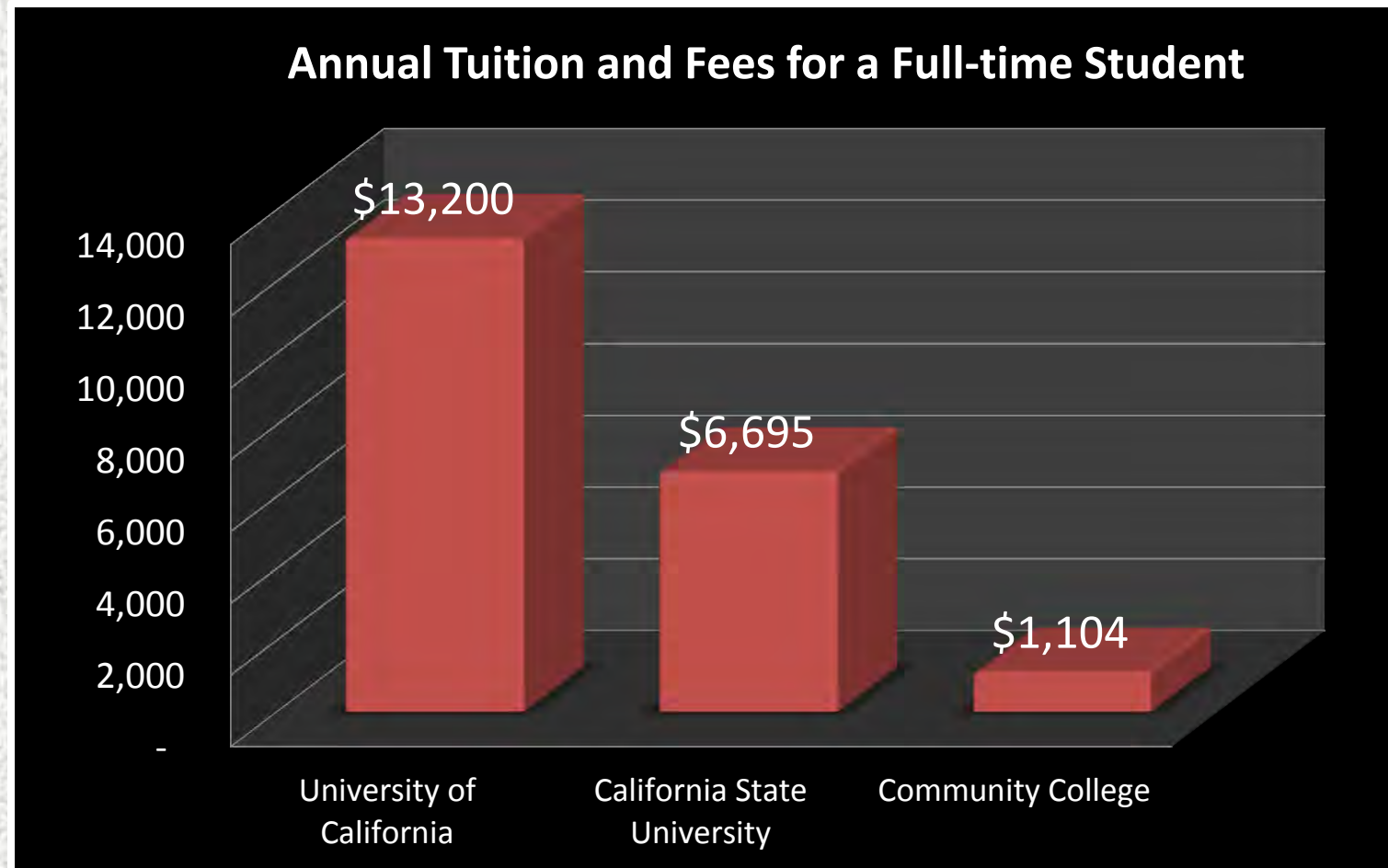
Planning for FY 2014-15 and beyond

- Budget development is ongoing and assumptions for FY 2014-15 Tentative Budget have been reviewed through the participatory governance model
- We are assuming 0% in growth/access funding in FY 2014-15
 - This assumption will change based upon the FTES strategy utilized in FY 2013-14
- As mentioned, meeting FTES targets is an on-going concern
 - Marketing efforts designed to promote college capacity are underway
 - The value of education and of community colleges in particular will be stressed

The value of education

| Education attained | Unemployment rate in 2012 (Percent) | Lifetime Earnings |
|--|--|-------------------|
| Doctoral degree | 2.5 | \$3,377,920 |
| Professional degree | 2.1 | \$3,608,800 |
| Master's degree | 3.5 | \$2,704,000 |
| Bachelor's degree | 4.5 | \$2,217,280 |
| Associate's degree | 6.2 | \$1,632,800 |
| Some college, no degree | 7.7 | \$1,512,160 |
| High school diploma | 8.3 | \$1,356,160 |
| Less than a high school diploma | 12.4 | \$979,680 |
| <i>Note: Data are for persons age 25 and over.</i> | | |
| <i>Lifetime earnings are for full-time wage and salary workers over 40 years.</i> | | |
| <i>Source: Current Population Survey, U.S. Department of Labor, U.S. Bureau of Labor Statistics.</i> | | |

Community Colleges are a bargain



Other Budget Development Considerations

50% law

Faculty
Obligation
Number

Other
State/Federal
Mandates

Participatory
Governance

Collective
Bargaining

Fulfilling our
Mission

Long-Term Concerns

- Demand for our courses
- Escalation in health and welfare costs
- Unfunded liabilities
 - Load Banking and Vacation approximately \$8.7 million
 - Retiree Health Benefits approximately \$178 million
- The impending end of the Prop 30 tax increases (2016 and 2018)
- All will be addressed through the annual budget development process done through participatory governance

Questions?

