Contra Costa Community College District

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2016 Budget Forum

11th Annual

Presenters:

Helen Benjamin, Chancellor

Gene Huff, Executive Vice Chancellor, Administrative Services

Jonah Nicholas, Associate Vice Chancellor, Finance

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Topics:

- District Enrollment
- FY 2015-16 Budget Update
- Current Economics
- FY 2016-17 Governor’s Budget Summary
- Retirement Costs
- Looking Forward
- Questions and Answers

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DISTRICT ENROLLMENT

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STUDENT ENROLLMENT

- Enrollment has declined from its recession-peak but has overall remained relatively flat for the past few years
  - District has been on a borrowing followed by stability cycle
    - FY 2012-13 – District goes on stability funding
    - FY 2013-14 – District borrows FTES, comes off stability funding
    - FY 2014-15 – District returns to stability funding
    - FY 2015-16 – District will borrow FTES, meaning FY 2016-17 will again be a stability year
  - THIS IS OK!! It helps the District maintain its funding and is completely within the intended purpose of the law

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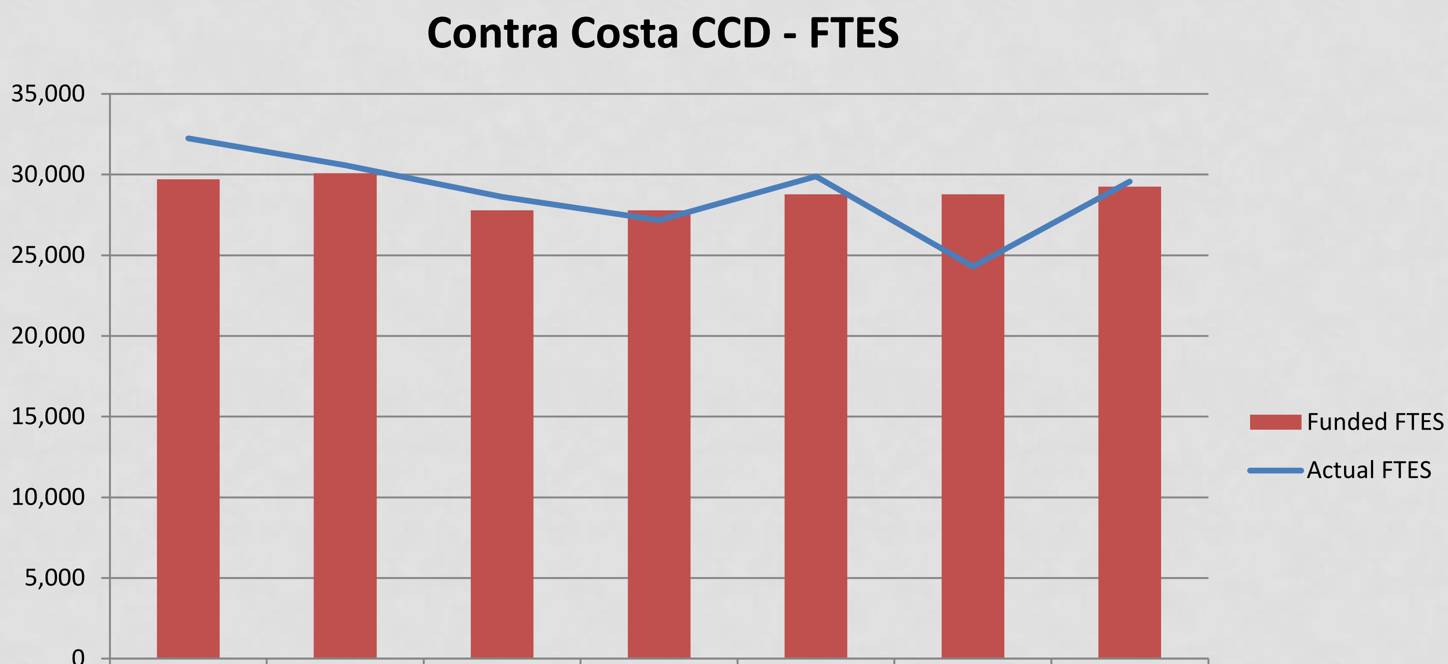
FUNDED VS. ACTUAL FTES
(WHAT STABILITY AND BORROWING LOOK LIKE)



	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13 (stability)	FY 2013-14 (borrowing)	FY 2014-15 (stability)	FY 2015-16 (borrowing)
Funded FTES	29,715	30,085	27,782	27,782	28,773	28,773	29,249
Actual FTES	32,246	30,584	28,618	27,167	29,883	24,293	29,563

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ENROLLMENT BY COLLEGE

	2015-16 Resident FTES Goal	2015-16 Estimated Resident FTES Achieved	Shortfall	% Shortfall
CCC	5,581	4,653	(928)	-16.6%
DVC	15,035	14,544	(491)	-3.3%
LMC	7,751	7,655	(96)	-1.2%
Total	**28,367**	**26,852**	**(1,515)**	**-5.3%**

Enrollment varies by college

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RAMIFICATIONS OF ENROLLMENT SHORTFALLS

Unable to capture growth funds and expand base FTES

- In FY 2012-13, the District did not receive $900k in growth f this was ong revenue tha have been a the District's b funding
- In FY 2013-14, through ng, the District d available t the pportunity in FY 2014-15 to capture $3.7M in growth funding

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BORROWING FOR FY 2015-16

- Based on the FTES shortfall, District staff received Governing Board approval to:
  - borrow 1,515 FTES from summer 2016 to meet target and not short ourselves $7.2M in already budgeted revenue; and
  - borrow **all** (approximately 2,700) the FTES from summer 2016 in order to generate additional one-time revenue over two years; this guarantees two things:
    - 1) The District will receive funding in FY 2016-17 for at least 29,249 resident FTES, regardless of the actual FTES achieved, and;
    - 2) The District will go on stability funding in FY 2016-17, meaning no additional growth funding can be earned

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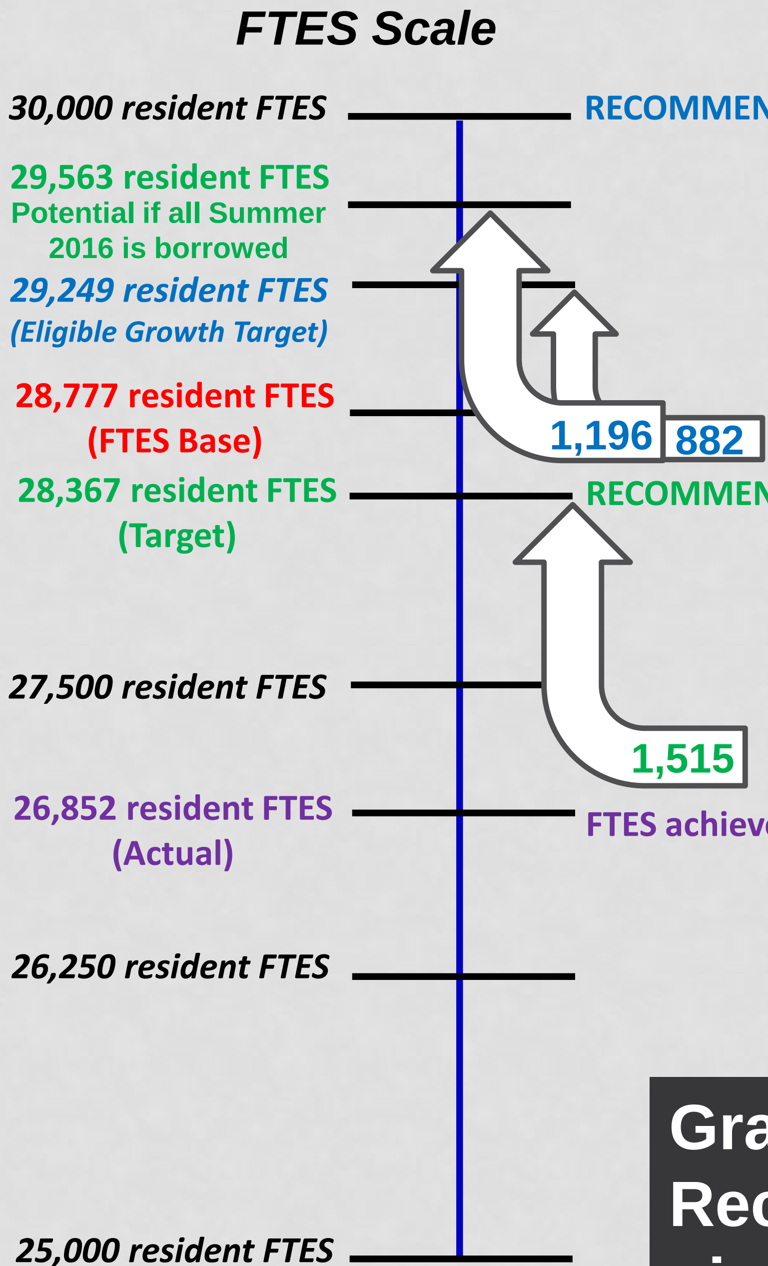

RECOMMENDATION #2 – Borrow 100 percent of Summer 2016 FTES

Potential for additional \$3M in one-time revenue over two years, dependent upon District being funded over its eligible growth target; will know result in February 2017

\$8.3M in additional apportionment revenue over two years — one-time revenue used to pay down long-term liabilities, invest in FTES generation, and other one-time uses

RECOMMENDATION #1 – Borrow 1,515 FTES to make FTES target

\$7.2M in apportionment revenue — will achieve the Adopted Budget revenue assumption

FTES achieved with no borrowing

Graphical Representation of Recommendations #1 and #2 given to the Governing Board

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EFFORTS TO INCREASE ENROLLMENT

comcast®

Substantial commercial buys have been made Districtwide and at each site

Student Equity Plan

Student Success and Support Program and Student Equity Funds have enabled the District to enhance student services ($2.7M increase)

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DISTRICTWIDE ENROLLMENT MANAGEMENT FRAMEWORK

CONTRA COSTA COLLEGE
DIABLO VALLEY COLLEGE
LOS MEDANOS COLLEGE

FEBRUARY 24, 2016

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FY 2015-16 BUDGET UPDATE

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FY 2015-16 BUDGET UPDATE

The budget was adopted with a $4.8M structural surplus largely predicated on the following additional, ongoing revenues:

- ✓ $1.35M from a 1.02% COLA;
- ✓ $6.9M from a substantial increase in the base allocations; and
- ✓ $1.54M from dollars earmarked for full-time faculty hires (21 new hires for the District)

In addition, the District received significant other one-time or categorical funding

- ✓ Mandate cost claims ($15.7 M); SSSP and Equity ($2.7M increase);

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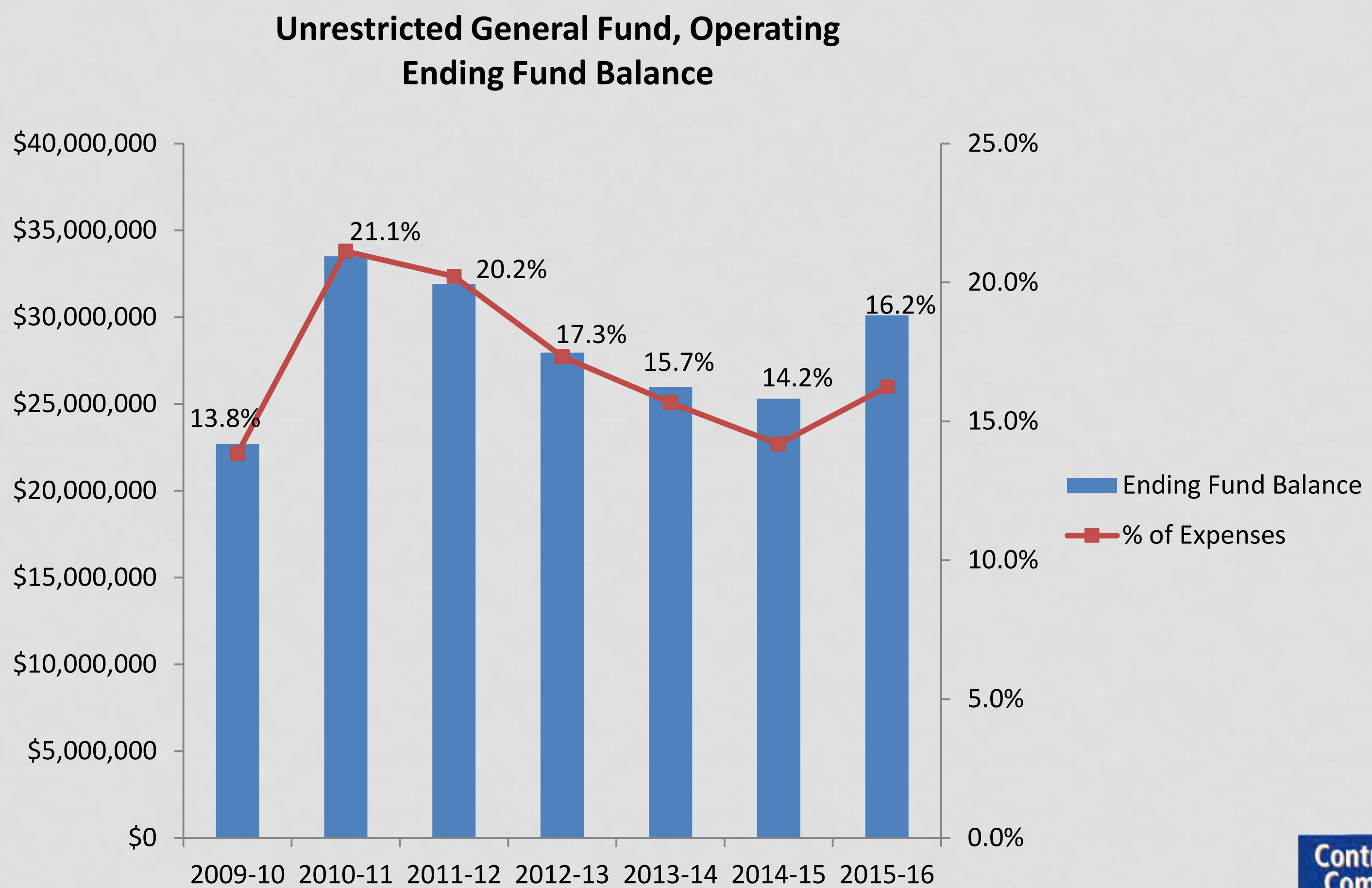
FY 2015-16 ADOPTION BUDGET: FUND BALANCE, OPERATING



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SALARY INCREASES

In October 2015, the Governing Board approved a 5% salary increase for permanent employees!

- Retroactive to July 1, 2015
- Second salary increase in the past seven years
- $5.1M in additional salary cost to the District
- Will significantly affect the fund balance

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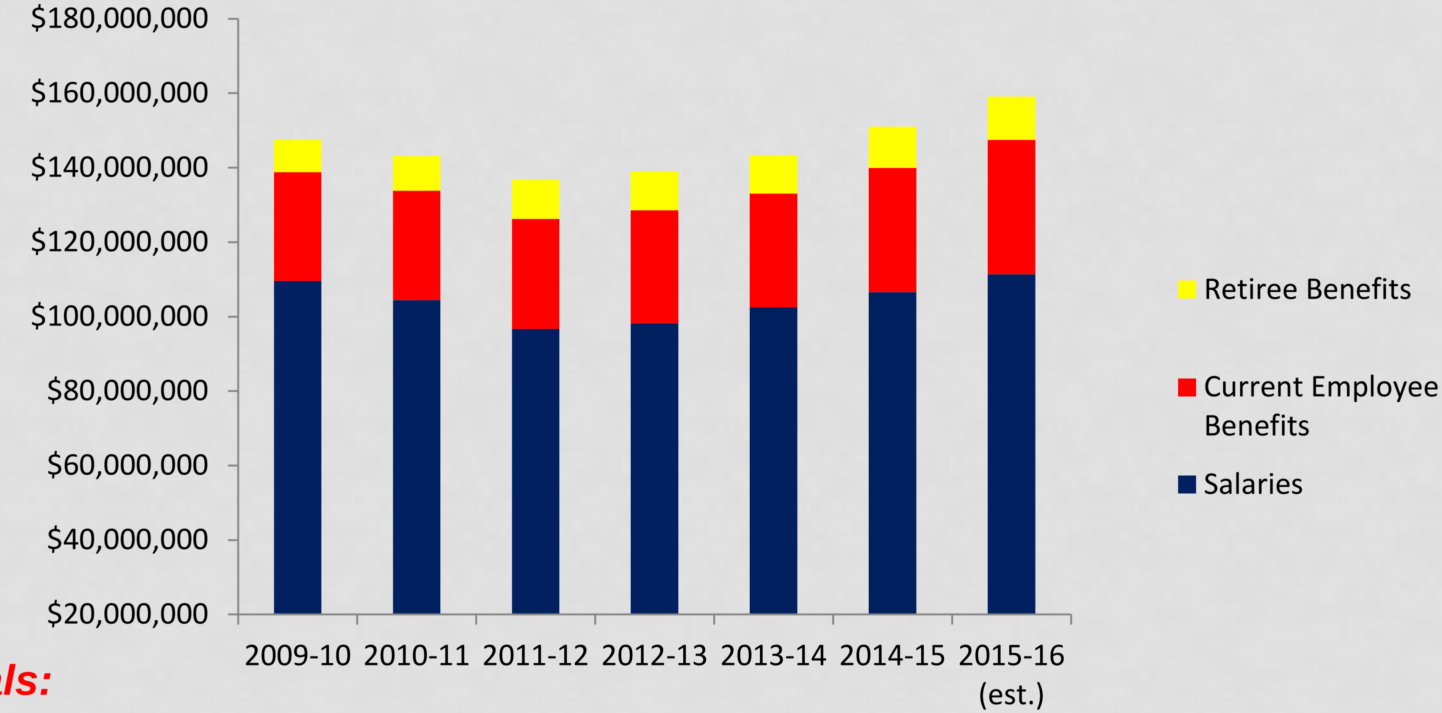
SALARIES & BENEFITS

Approximately 88% of the District's expenditures are in salary and benefits



Cumulative Totals:

2009-10: $147.5 M (Total benefits at 34.6% of salary)
2010-11: $143.1 M (Total benefits at 37.0% of salary)
2011-12: $136.8 M (Total benefits at 41.4% of salary)
2012-13: $139.0 M (Total benefits at 41.5% of salary)
2013-14: $143.4 M (Total benefits at 40.0% of salary)
2014-15: $151.0 M (Total benefits at 41.7% of salary)
2015-16: $159.1 M (Projected benefits at 42.8% of salary)

Prop 30 passes; salaries costs increase

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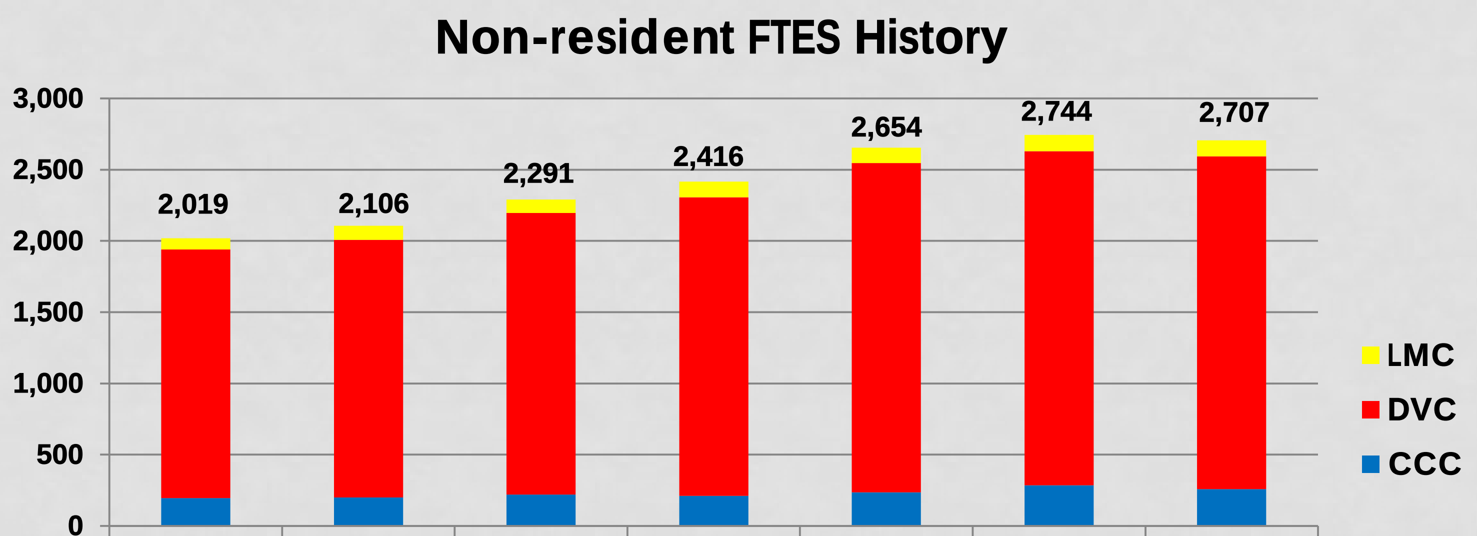
OTHER FY 2015-16 HIGHLIGHTS

Non-resident students

- Estimated to serve over 2,700 non-resident and international students in FY 2015-16, providing approximately $13.5M in revenue



	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 (est.)
LMC	78	99	95	109	108	114	114
DVC	1746	1807	1976	2097	2310	2345	2334
CCC	195	200	220	210	236	285	259

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OTHER FY 2015-16 HIGHLIGHTS

- CalSTRS Increase
  - The employer contribution rate increased from 8.88% to 10.73%, an increase of approximately $1.3M to the District
- CalPERS Increase
  - The employer contribution rate increased a tick from 11.77% to 11.84% resulting in about $120,000 cost increase to the District
- Healthcare Premiums – a mixed bag
  - Kaiser went down nearly 5%
  - Anthem went up between 16-29% depending upon the plan
    - About 8% increase in aggregate; year-over-year budget increase of approximately $1.4M for active employees

CURRENT ECONOMICS

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ECONOMICS – NATIONAL VS. STATE

National Data

- Unemployment rate: 4.9% as of February
  - Lowest since February 2008
- US GDP grew at 2.4% in 2015; same as in 2014

California Data

- Unemployment rate: 5.8% as of January
  - Lowest since October 2007
- Contra Costa County unemployment rate at 4.5%

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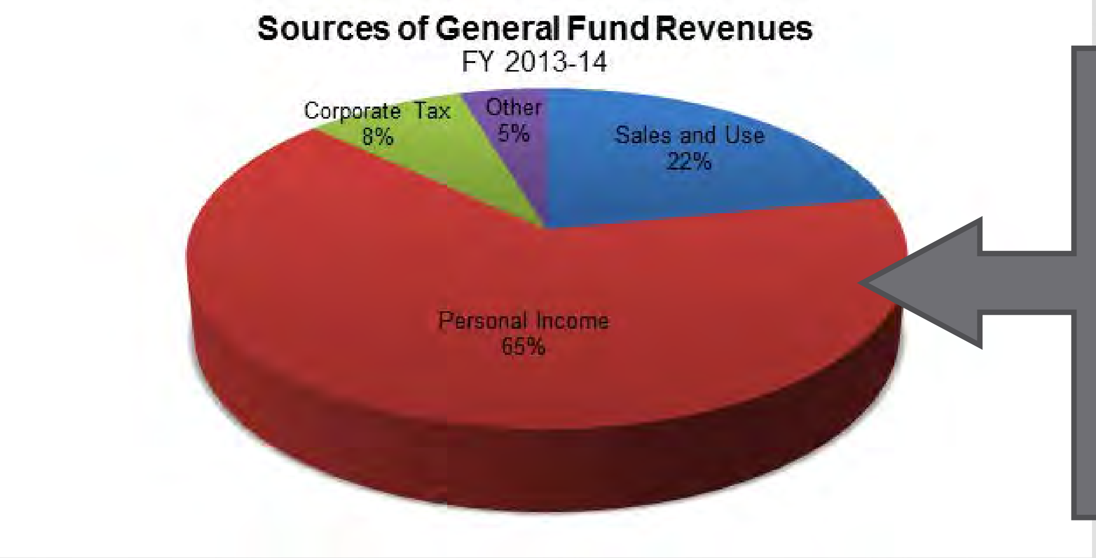
ECONOMICS – NATIONAL VS. STATE

- California economy growing faster than national economy
- Unemployment continues to fall
- State revenues up significantly
- However, much depends upon the stock market

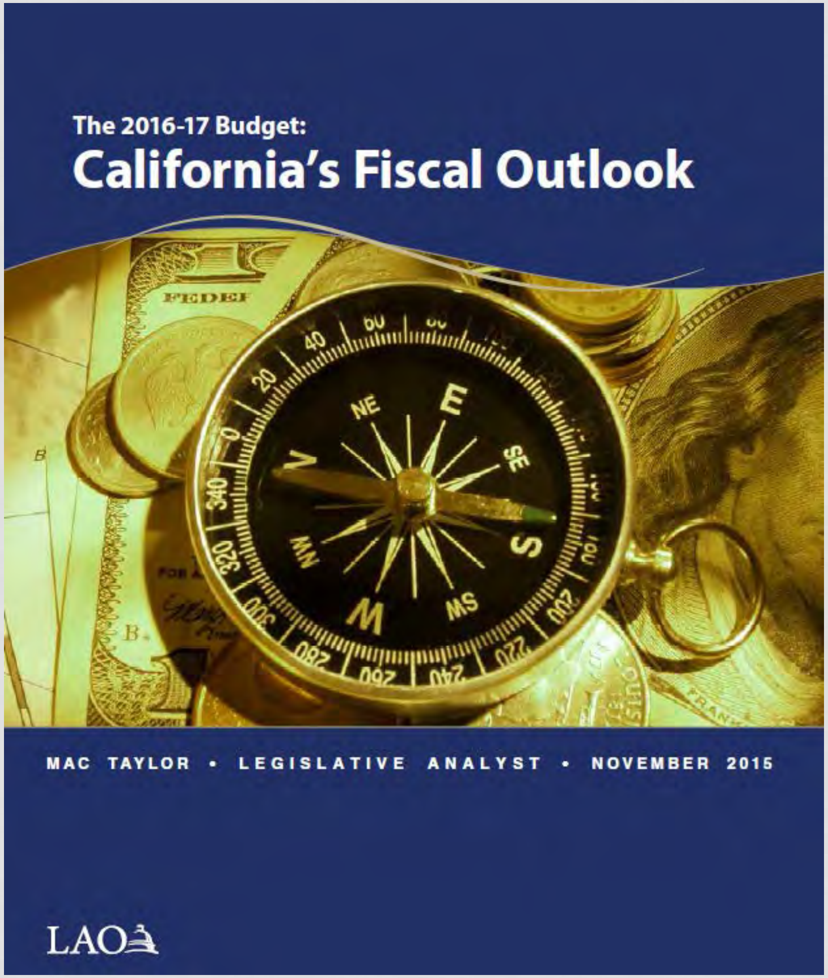
ECONOMICS – STATE



Includes Capital Gains Taxes of approximately $10B; this is a highly volatile variable. Has been as low as $3B as recently as FY 2009-10

Stock market opened the Fiscal Year at 17,900. It has twice bottomed into the 15,600 range and once peaked around 18,000. Currently in the 17,300 range. Definitely something to watch…

LEGISLATIVE ANALYST'S OFFICE



- The LAO annually produces a Fiscal Outlook document forecasting anticipated results of the California economy.
- The current report forecasts out to FY 2019-20.
- Overall the LAO paints a bright picture for FY 2016-17 and estimates additional revenue above what was budgeted for FY 2015-16.

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LEGISLATIVE ANALYST'S OFFICE

FY 2015-16: An estimated $3.5B in revenue above budget is expected

- Two-thirds of these funds ($2.2B) are earmarked for the Budget Stabilization Account (Rainy Day Fund)
- Brings the estimated FY 2015-16 ending balance in the Rainy Day Fund to $5.6B

FY 2016-17: Projected that revenue will exceed expenses and the strong state economy will continue.

- Rainy Day Fund projected to be around $7B by the end of FY 2016-17

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LEGISLATIVE ANALYST'S OFFICE

"A sizable reserve is the key to making it through the next economic downturn with minimal disruption to public programs"

- Legislative Analyst's Office, California's Fiscal Outlook

Why are reserves so important? Consider three scenarios*

I. Main Scenario – Economic Growth (currently predicted)
II. Alternative Scenario 1 – Slowdown in the economy
III. Alternative Scenario 2 – Recession in the economy

All scenarios assume current law (no new budget commitments or de-commitments)

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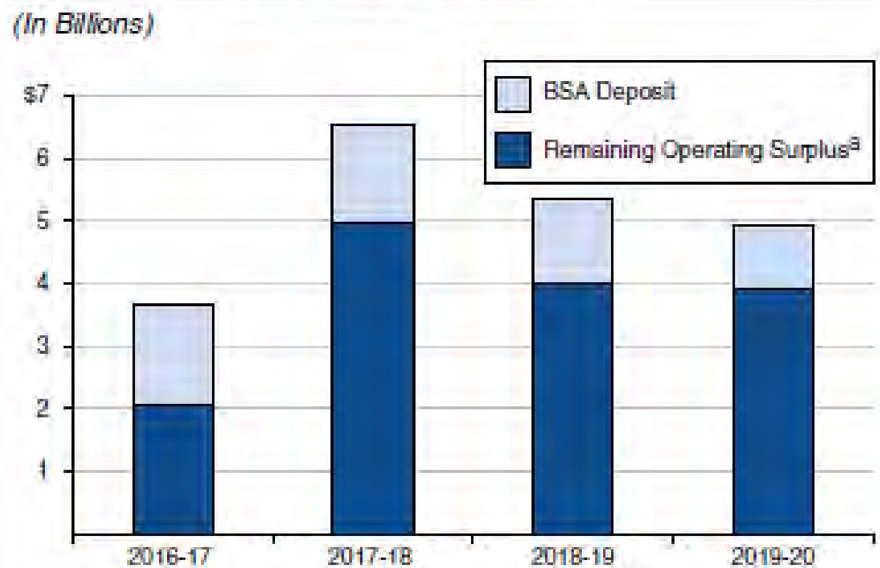
LAO - MAIN SCENARIO (GROWTH)

Significant operating reserves would accumulate and an additional $4.5B would be deposited into the Rainy Day Fund through FY 2019-20.

Likely 4CD Impact: Continued ongoing funding made available in COLA, growth, or other forms

Figure 1

Main Scenario: Operating Surpluses



[a] Amount that can be allocated in budget or used to build additional reserves.
Note: Operating surplus defined as amount by which total reserves increase.
BSA = Budget Stabilization Account.

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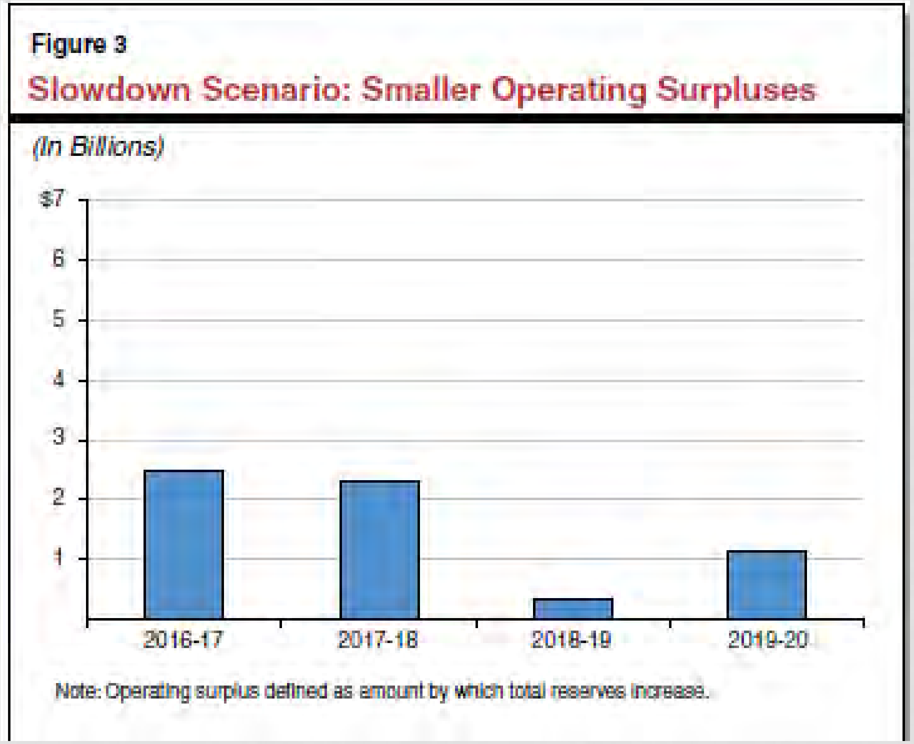
LAO – SLOWDOWN SCENARIO



The state budget is prepared to handle a slowdown, but would see much smaller surpluses and no deposits to the Rainy Day Fund.

Likely 4CD Impact: Little new ongoing funding made available

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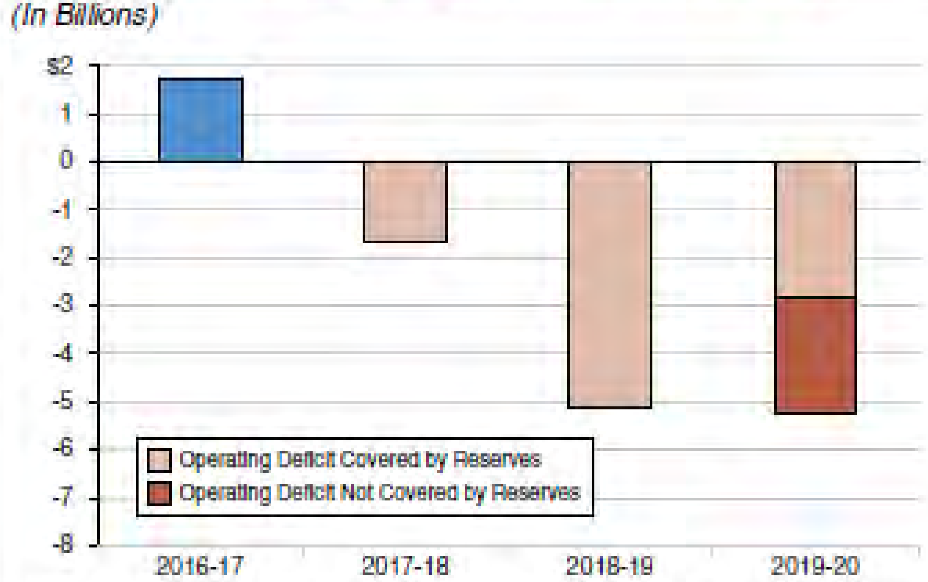
LAO – RECESSION SCENARIO

The state's dependence upon Personal Income Taxes, including Capital Gains Taxes, is exposed and reserves fail to cover the deficit in FY 2019-20.

Likely 4CD Impact: Eventual workload reductions, smoothed to a degree by the Rainy Day Fund

Figure 4

Recession Scenario: Reserves Cover Operating Deficits Until 2019-20



Note: Operating surplus (deficit) defined as amount by which total reserves increase (decrease).

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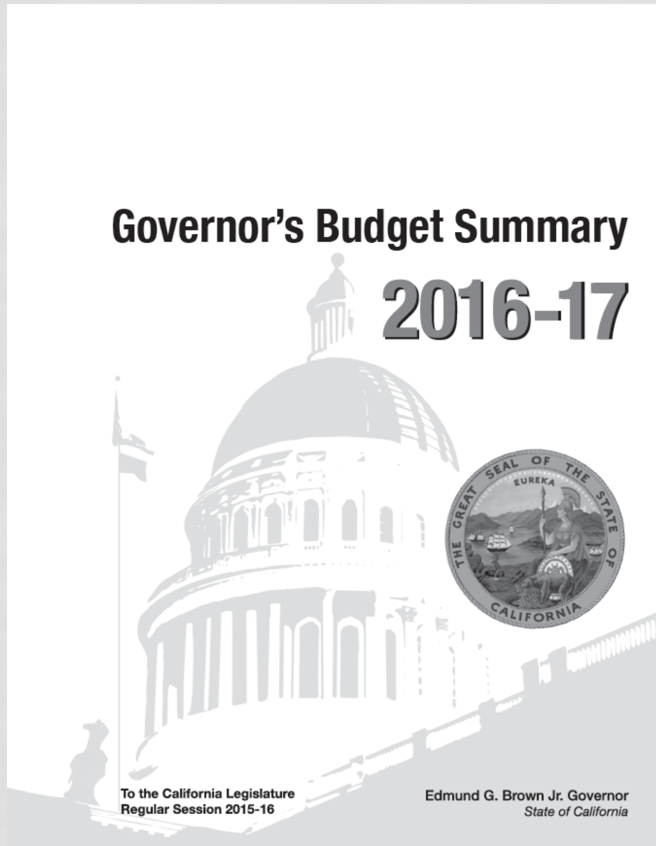
FY 2016-17 GOVERNOR'S BUDGET SUMMARY



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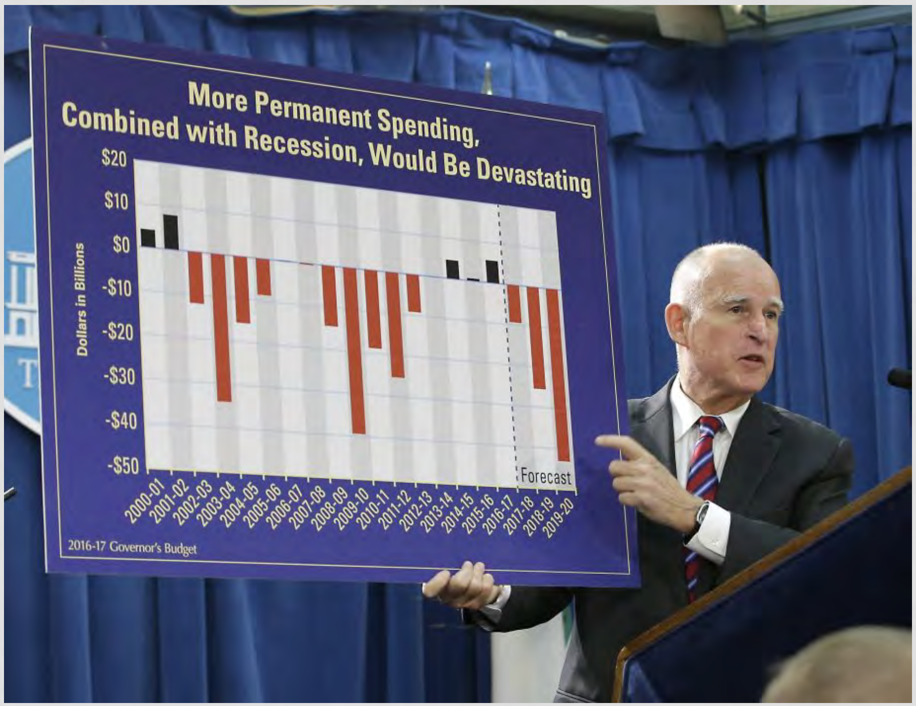
GOVERNOR BROWN URGES RESTRAINT



"Between 2000 and 2016, you find that the total deficits were seven times as large as the surpluses, resulting in painful and unplanned for cuts."

- Governor Jerry Brown

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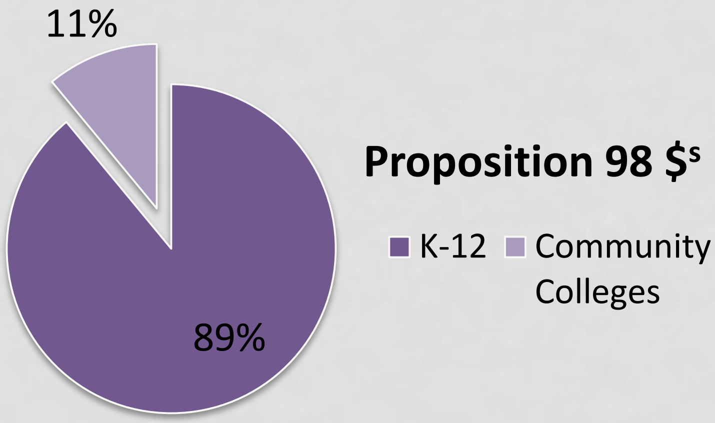
HIGHLIGHTS OF 2016-17 BUDGET PROPOSAL

- General Fund expenditures of $120B and an estimated $8B in the Rainy Day Fund (higher than LAO's previous estimate)
- Proposition 98: The Governor estimates a FY 2016-17 Prop 98 guarantee of $71.6B, an increase of $2.4B, or 3.5%, over the revised current year-level. The community college system is expected to receive 11% of the Prop 98 funds, consistent with the historical split between K-12 and community colleges.



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MAJOR PROPOSALS

Growth Funding – 2% systemwide

- Potential for the District to earn an additional 575 resident FTES worth approximately $2.7M; **District will not earn these FTES or the associated ongoing dollars**

Cost of Living Adjustment (COLA) – 0.47%

- Would raise the value of a credit FTES from $4,724 to $4,745, a $21 per FTES increase. **This proposal would provide an additional $600,000 in ongoing apportionment funding for the District**

Deferred Maintenance and Instructional Equipment - $283M systemwide

- With the vast majority of these funds coming from ongoing sources, the **District would receive approximately $6.4M in deferred maintenance and instructional equipment funds**

MAJOR PROPOSALS CONT.

Mandate Cost Claim Reimbursements– $76M systemwide

- **District would receive approximately $1.6M in one-time funds**

Strong Workforce Program - $200M systemwide

- The Governor proposes a $200M increase to the Strong Workforce Program to expand access to career technical education courses and implement a regional accountability structure. Allocations will be provided to regional consortia; **unknown how the District would participate or how much funding would be available**

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GOVERNOR'S BUDGET OVERALL

Disappointing Budget

- Growth that can't be earned
- COLA that does not take into account ongoing, increased costs
- No increase to base funding and very minor amounts of one-time funding

The District is hopeful for a better picture by the May Revision

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RETIREMENT COSTS

Recent accounting changes and known cost increases make the topic of pension costs for active employees and health benefit costs for retirees an area of focus for the District

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ACCOUNTING CHANGES - PENSIONS

- GASB 68 – Financial reporting requirements for state and local governments who offer pensions
  - GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits
- What this means?
  - To the extent that CalSTRS and CalPERS have unfunded liabilities, the District's "share" of those liabilities must be accounted for and included as a liability on its balance sheet
  - Effective as of June 30, 2015

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ACCOUNTING CHANGES - PENSIONS

- The District's share of the unfunded liabilities of the two pension systems totaled over $148M
  - This is the District's portion of CalSTRS' $70B unfunded liability and CalPERS' $63B unfunded liability
  - This change in GASB 68 drastically affected the District's net position (all funds), dropping from $169M to $37M in its latest audit report

	2014	2015
Total Net Position	$ 169,118,657	$ 37,381,410

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ACCOUNTING CHANGES - PENSIONS

- Does this change really matter?
  - After all, why is it **<u>OUR</u>** liability when the pension systems have to make the payments?
    - True, but the pension systems, in differing ways, set the rates that all participating agencies pay. To the extent there is an unfunded liability, the pension systems, particularly CalSTRS, can pass on cost increases to cover the shortfall.
    - Substantial rate increases are guaranteed for CalSTRS out to FY 2020-21; these increases are in statute and constitute a plan to make CalSTRS fully funded in 30 years
    - CalPERS has signaled substantial rate increases are forthcoming, but are controlled by a Board not the Governor or State Legislature

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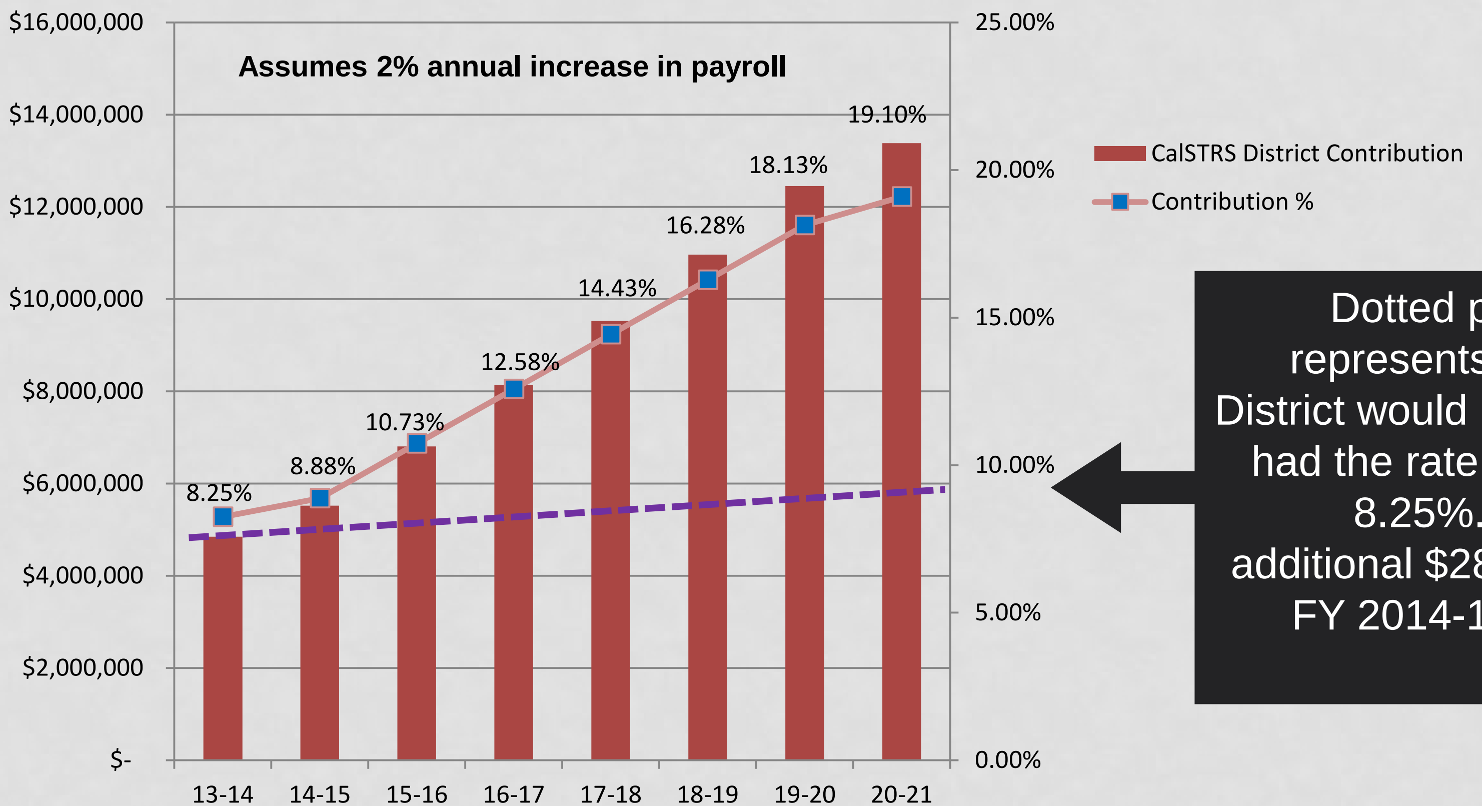
DISTRICT CONTRIBUTION - CALSTRS



Dotted purple line represents what the District would be paying had the rate stayed at 8.25%. Adds an additional $28.6M from FY 2014-15 thru FY 2020-21

The District will see its contributions go from 8.25% in FY 2013-14 to 19.1% in FY 2020-21. Total annual dollars go from $4.8M to $13.4M

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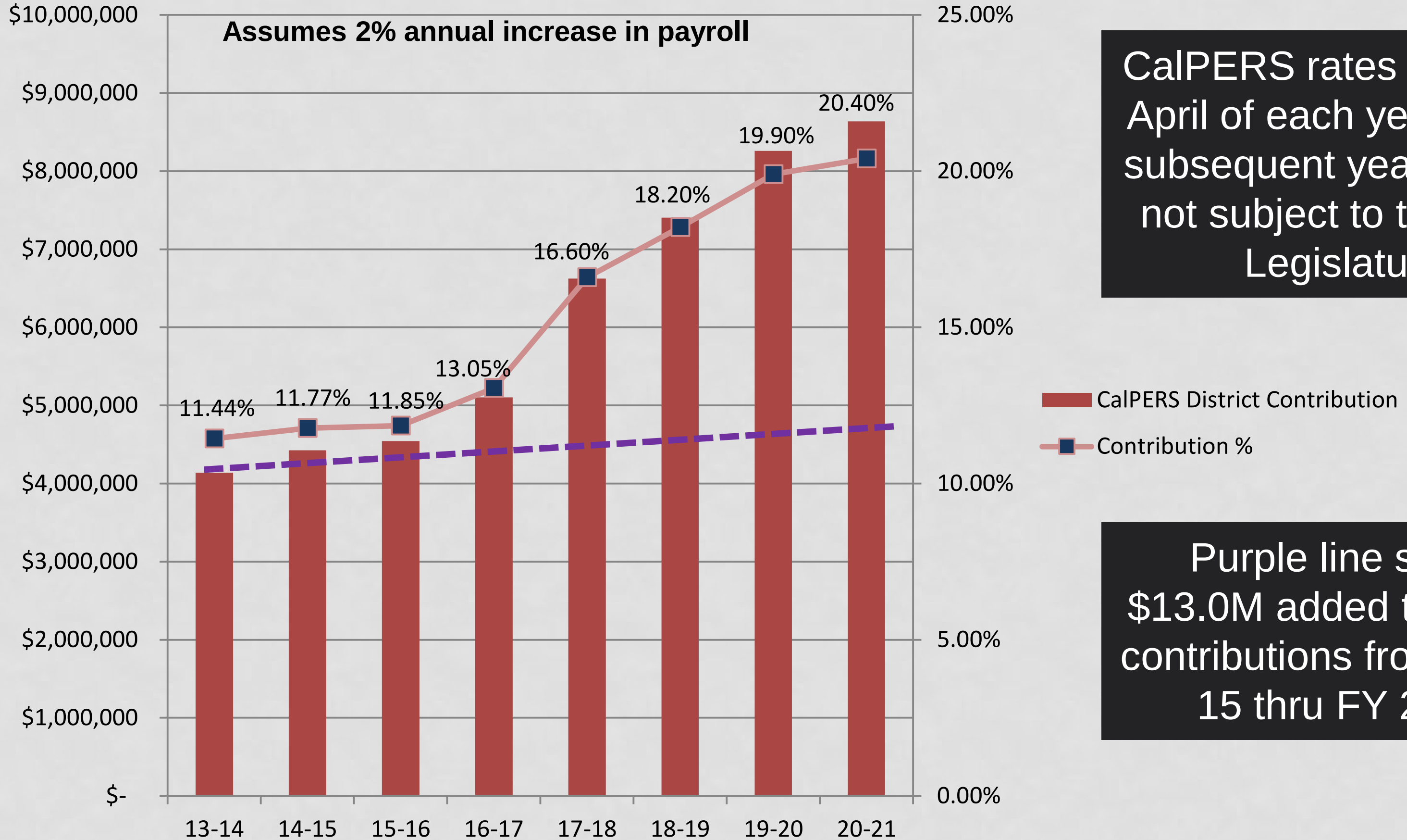
DISTRICT CONTRIBUTION - CALPERS



CalPERS rates are set in April of each year for the subsequent year and are not subject to the State Legislature.

Purple line shows $13.0M added to District contributions from FY 14-15 thru FY 20-21

The District may see its contributions go from 11.85% in FY 2015-16 to 20.4% in FY 2020-21. Beginning with FY 2013-14, total annual dollars goes from $4.1M to $8.6M

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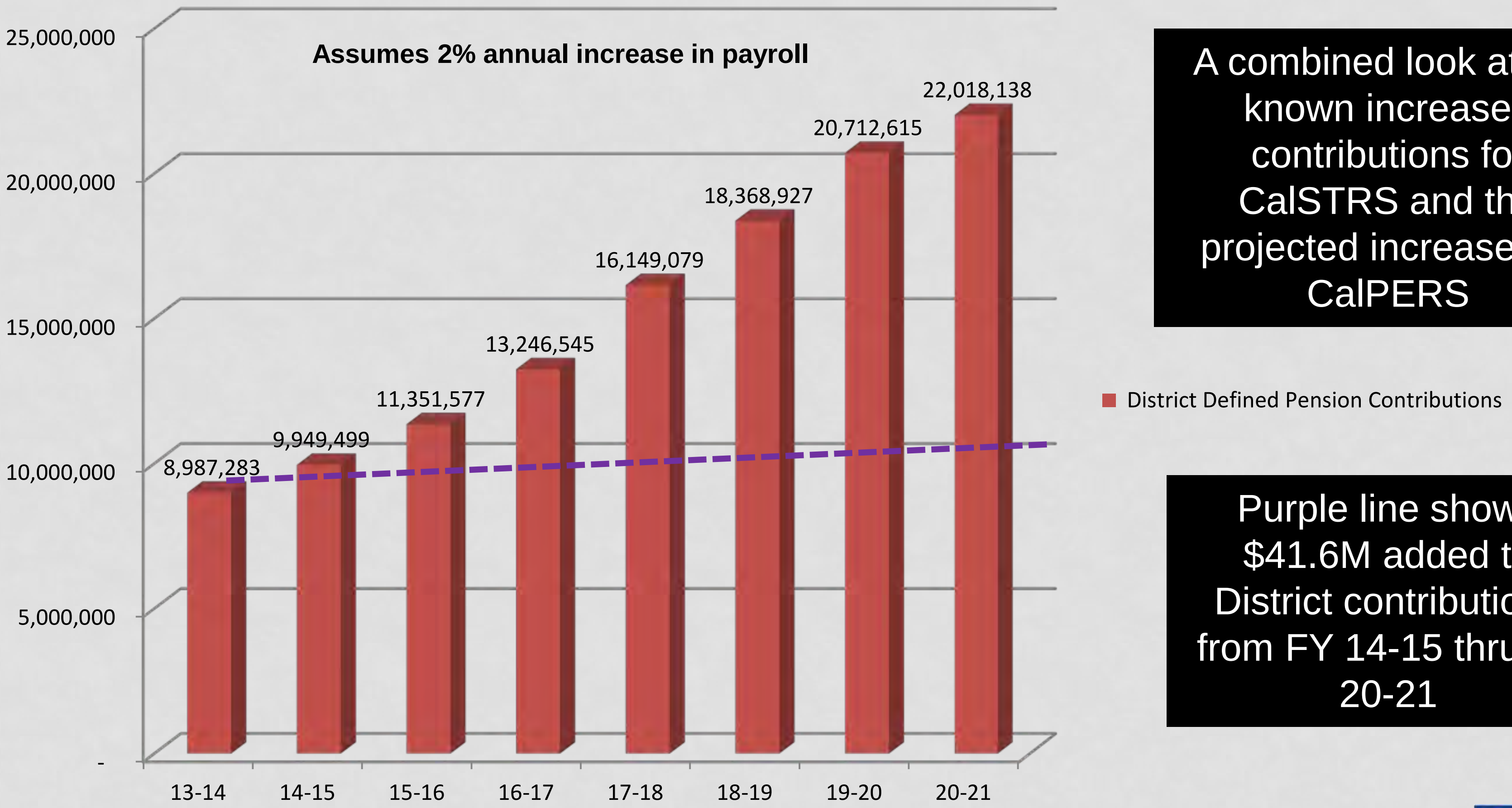
DISTRICT CONTRIBUTION-PENSIONS



A combined look at the known increased contributions for CalSTRS and the projected increases in CalPERS

Purple line shows $41.6M added to District contributions from FY 14-15 thru FY 20-21

Total District contributed annual dollars to defined benefit pension programs go from $9M to $22M

PAYING FOR THESE COST INCREASES

- How much COLA do we need to cover these cost increases? The following table shows the COLA needed each year to "break-even" on the pension increases; the table assumes that in each prior year the break-even COLA is achieved

	CalSTRS Increase	CalPERS Increase	Total Increase	% of Payroll	Breakeven COLA	
FY 16-17	1,333,602	561,366	1,894,968	1.82%	1.38%	0.47% proposed
FY 17-18	1,384,223	1,518,311	2,902,534	2.74%	2.10%	
FY 18-19	1,436,334	783,514	2,219,848	2.05%	1.57%	
FY 19-20	1,489,977	853,711	2,343,688	2.13%	1.63%	
FY 20-21	928,653	376,870	1,305,523	1.16%	0.89%	

- Absent receiving COLAs or other ongoing funds substantially larger than what has recently been experienced, other funds will need to be identified to pay for these escalating pension costs

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ACCOUNTING CHANGES – RETIREE HEALTH BENEFITS

- GASB 74/75 – Financial reporting requirements for state and local governments who offer other post-employment benefits (OPEB)
  - GASB 74/75 essentially requires employers to recognize the total value of their net OPEB liability within their financial statements; currently you are allowed to amortize over 30 years
- What this means?
  - Basically follows the same pattern as GASB 68 that was just discussed; employers must put the entire unfunded liability on their balance sheet
  - Effective as of FY 2017-18

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ACCOUNTING CHANGES – RETIREE HEALTH BENEFITS

- The District has a substantial OPEB liability

VALUATION ITEM	6/30/2006		6/30/2008		11/4/2011		3/1/2013		3/1/2015	
AAL	$335,136,700		$262,768,400	-21.6%	$182,053,694	-30.7%	$178,551,353	-1.9%	$172,460,158	-3.4%
ARC	$27,827,100		$23,290,200	-16.3%	$18,097,155	-22.3%	$16,564,389	-8.5%	$17,198,348	3.8%
PAY-GO	$7,786,500		$7,919,600	1.7%	$9,657,456	21.9%	$9,704,677	0.5%	$11,498,192	18.5%
ADDED COST	$20,040,600		$15,370,600	-23.3%	$8,437,699	-45.1%	$6,859,712	-18.7%	$5,700,156	-16.9%
DISCOUNT RATE	3.50%		4.50%		6.65%		6.70%		6.70%	

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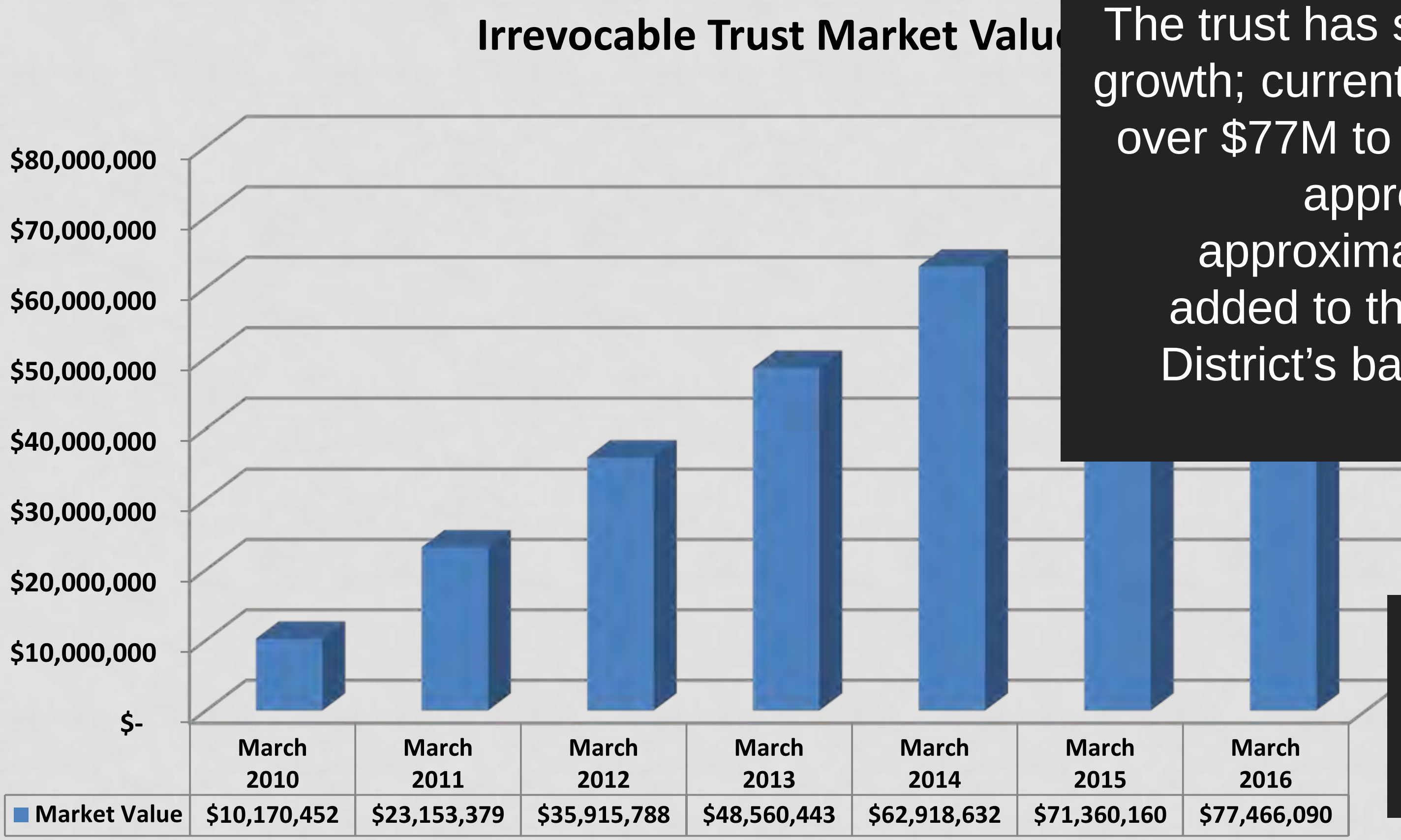
IRREVOCABLE TRUST GROWTH



The trust has shown impressive growth; currently the District has over $77M to cover a liability of approximately $172M; approximately $95M will be added to the liabilities on the District's balance sheet in FY 2017-18

The District has funds set aside to cover its ARC through FY 2018-19

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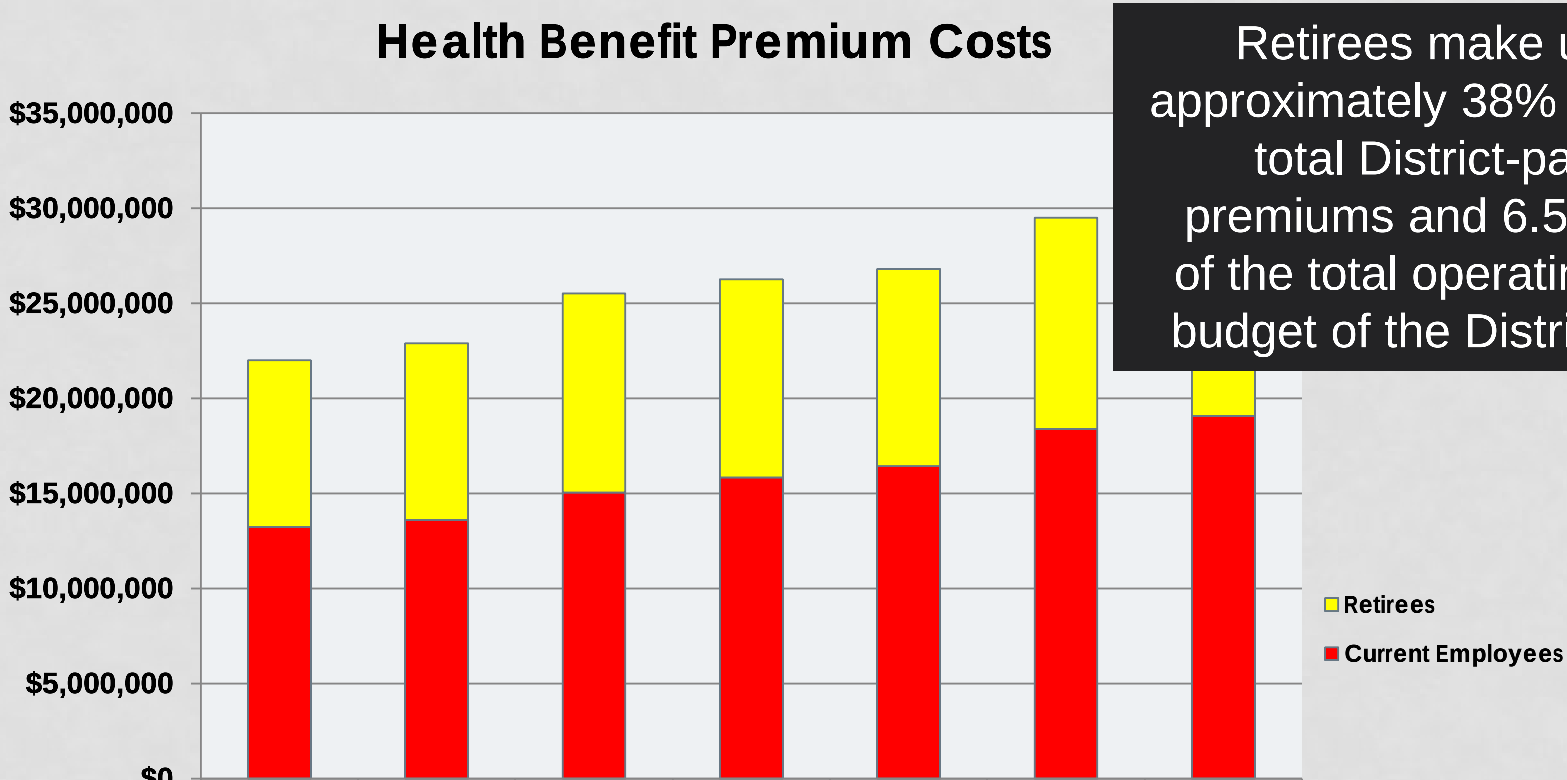
HEALTH BENEFIT PREMIUMS



Retirees make up approximately 38% of total District-paid premiums and 6.5% of the total operating budget of the District

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 (est.)
Retirees	$8,751,165	$9,294,095	$10,476,622	$10,420,816	$10,374,198	$11,117,436	$11,658,965
Current Employees	$13,245,803	$13,607,401	$15,046,633	$15,839,548	$16,428,724	$18,390,189	$19,079,853
Retirees % of Total Operating Budget	5.27%	5.78%	6.78%	6.59%	6.35%	6.44%	6.53%

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TOTAL RETIREMENT COSTS

- Between GASB 68 and 74/75, the District will have to recognize an additional $250M in liabilities on its balance sheet by FY 2017-18; will almost certainly push the District into a negative net position
- If you add up all sources of retirement contributions or set-asides the District currently has on an annual basis, the cost goes from $27.2M in FY 2013-14 to an estimated $43.6M by FY 2020-21

60% Increase in 7 years

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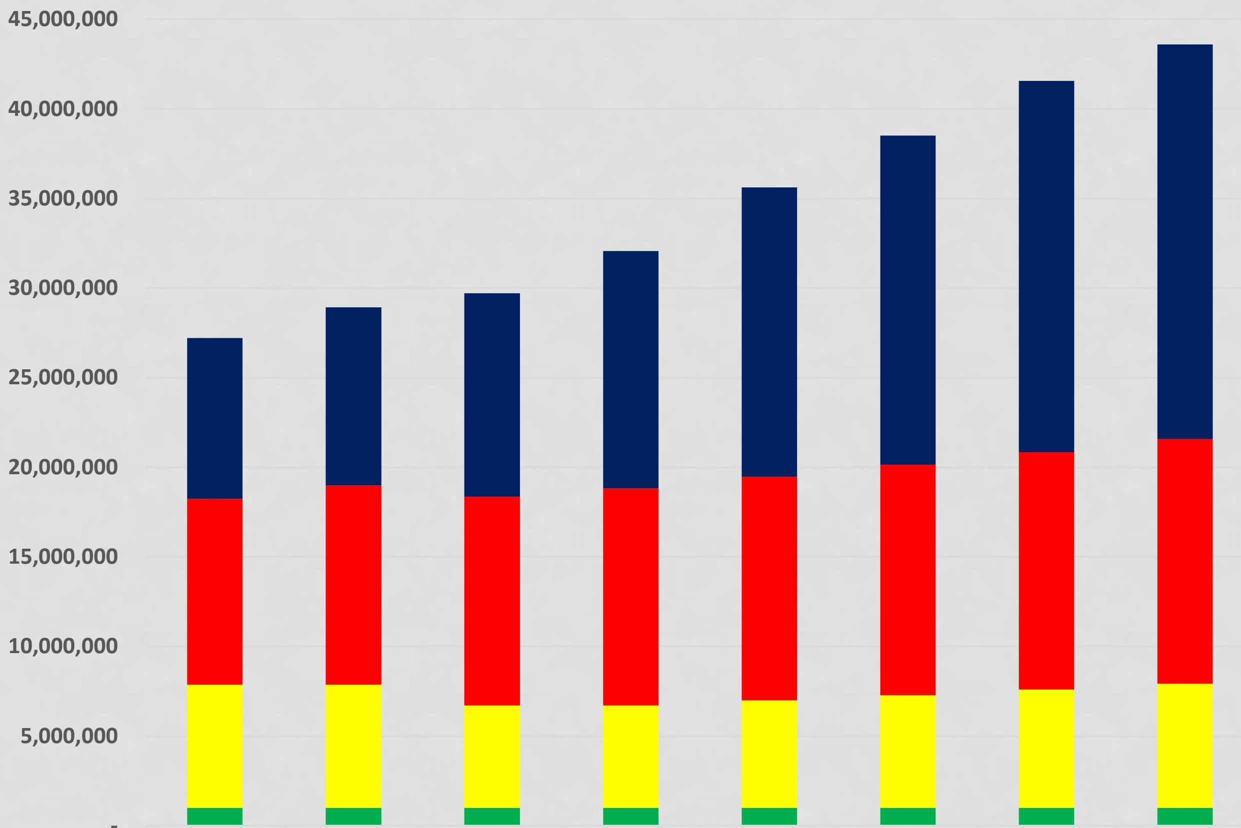
TOTAL RETIREMENT COSTS



	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
District Defined Pension Contributions	8,987,283	9,949,499	11,351,577	13,246,545	16,149,079	18,368,927	20,712,615	22,018,138
Retiree Health Benefits	10,374,198	11,117,436	11,658,965	12,125,324	12,489,083	12,863,756	13,249,668	13,647,159
ARC Transfers	6,860,000	6,860,000	5,700,200	5,700,200	5,985,210	6,284,471	6,598,694	6,928,629
$1M Off-The-Top Transfer	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total	27,221,481	28,926,935	29,710,742	32,072,069	35,623,372	38,517,154	41,560,977	43,593,926

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LOOKING FORWARD

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PLANNING FOR FY 2016-17 AND BEYOND

- Budget development is ongoing and assumptions for FY 2016-17 Tentative Budget have been reviewed through the participatory governance process. Major assumptions include:
  - COLA of 0.47%
  - No Growth will be budgeted; college targets are being reviewed, particularly at CCC (reduction of 200 FTES)
  - Increase in health benefits of 7.2%
- Growing year-over-year FTES is a major goal
- Other concerns:
  - Unfunded Liabilities (Retiree Health Benefits and Compensated Absences)
  - Pension Costs
  - Health and Welfare Costs
  - The impending end of Prop 30 tax increases (sales tax increase goes away in the middle of FY 2016-17)
  - All these concerns will be transparently addressed through the annual budget development process done through participatory governance

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QUESTIONS?

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