

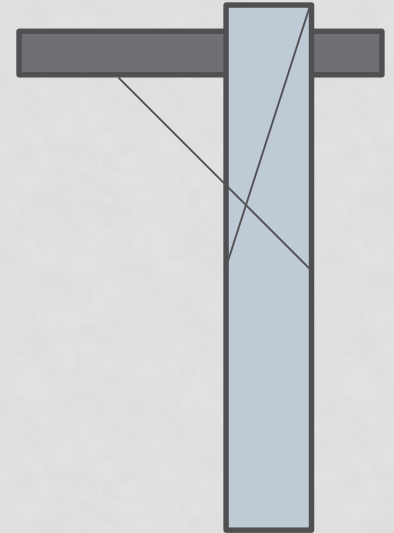


# 2017 Budget Forum

## 12th Annual



# Presenters:



Dr. Fred Wood, Chancellor



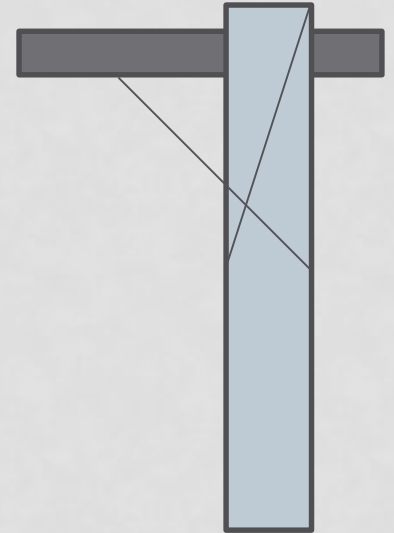
Gene Huff, Executive Vice Chancellor,  
Administrative Services



Jonah Nicholas, Associate Vice Chancellor,  
Finance

# Topics:

- District Enrollment
- FY 2016-17 Budget Update
- Current Economics
- FY 2017-18 Governor's Budget Summary
- Retirement Costs
- Looking Forward
- Questions and Answers



# DISTRICT ENROLLMENT



Contra Costa College



Diablo Valley College



San Ramon Campus



Los Medanos College



Brentwood Center

# STUDENT ENROLLMENT

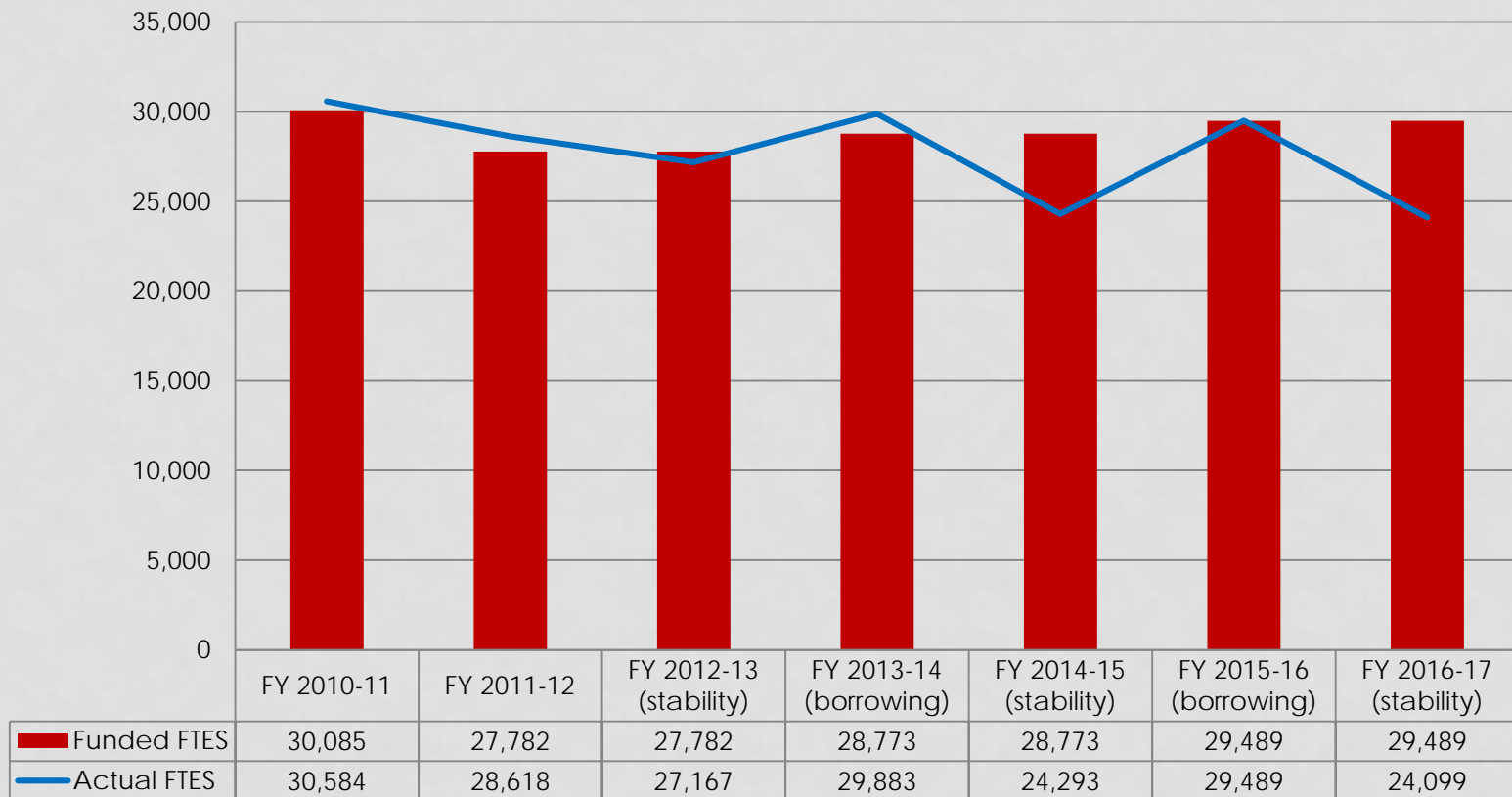
- Enrollment has declined from its recession-peak but has overall remained relatively flat for the past few years
  - District has been on a borrowing followed by stability cycle
    - FY 2012-13 – District goes on stability funding
    - FY 2013-14 – District borrows FTES, comes off stability funding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



# FUNDED VS. ACTUAL FTES

(WHAT STABILITY AND BORROWING LOOK LIKE)

## Contra Costa CCD - FTES



# ENROLLMENT BY COLLEGE

	<b><u>2016-17 Resident FTES Goal</u></b>	<b><u>2016-17 Estimated Resident FTES Achieved</u></b>	<b><u>Shortfall</u></b>	<b><u>% Shortfall</u></b>
<b>CCC</b>	5,381	4,650	(731)	-13.6%
<b>DVC</b>	15,336	14,519	(817)	-5.3%
<b>LMC</b>	7,951	7,518	(433)	-5.4%
<b>Total</b>	<b>28,668</b>	<b>26,687</b>	<b>(1,981)</b>	<b>-6.9%</b>

Enrollment shortfall varies by college

# 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 funds; this was ongoing revenue that could have been added to the District's base funding
- District lost the opportunity in FY 2014-15 to capture \$3.7M in growth funding
- Another \$2.7M in growth funding will not be earned in FY 2016-17



# EFFORTS TO INCREASE ENROLLMENT



Colleges are purchasing local television advertising

**Student Services  
Support Program  
(SSSP)**

## **Student Equity Plan**

With annual allocations greater than \$10 million, the Student Success and Support Program and Student Equity Funds have enabled the District to enhance student services



**DISTRICTWIDE ENROLLMENT MANAGEMENT  
FRAMEWORK**

**CONTRA COSTA COLLEGE  
DIABLO VALLEY COLLEGE  
LOS MEDANOS COLLEGE**

**FEBRUARY 24, 2016**



# FY 2016-17 BUDGET UPDATE



Contra Costa College



Diablo Valley College



### San Ramon Campus



Los Medanos College



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# FY 2016-17 BUDGET UPDATE

The budget was adopted with a \$1.4M structural deficit, which was less than 1 percent of the expenditure budget. The budget included:

- ✓ \$2M in ongoing revenue from an increase to the District's base allocation

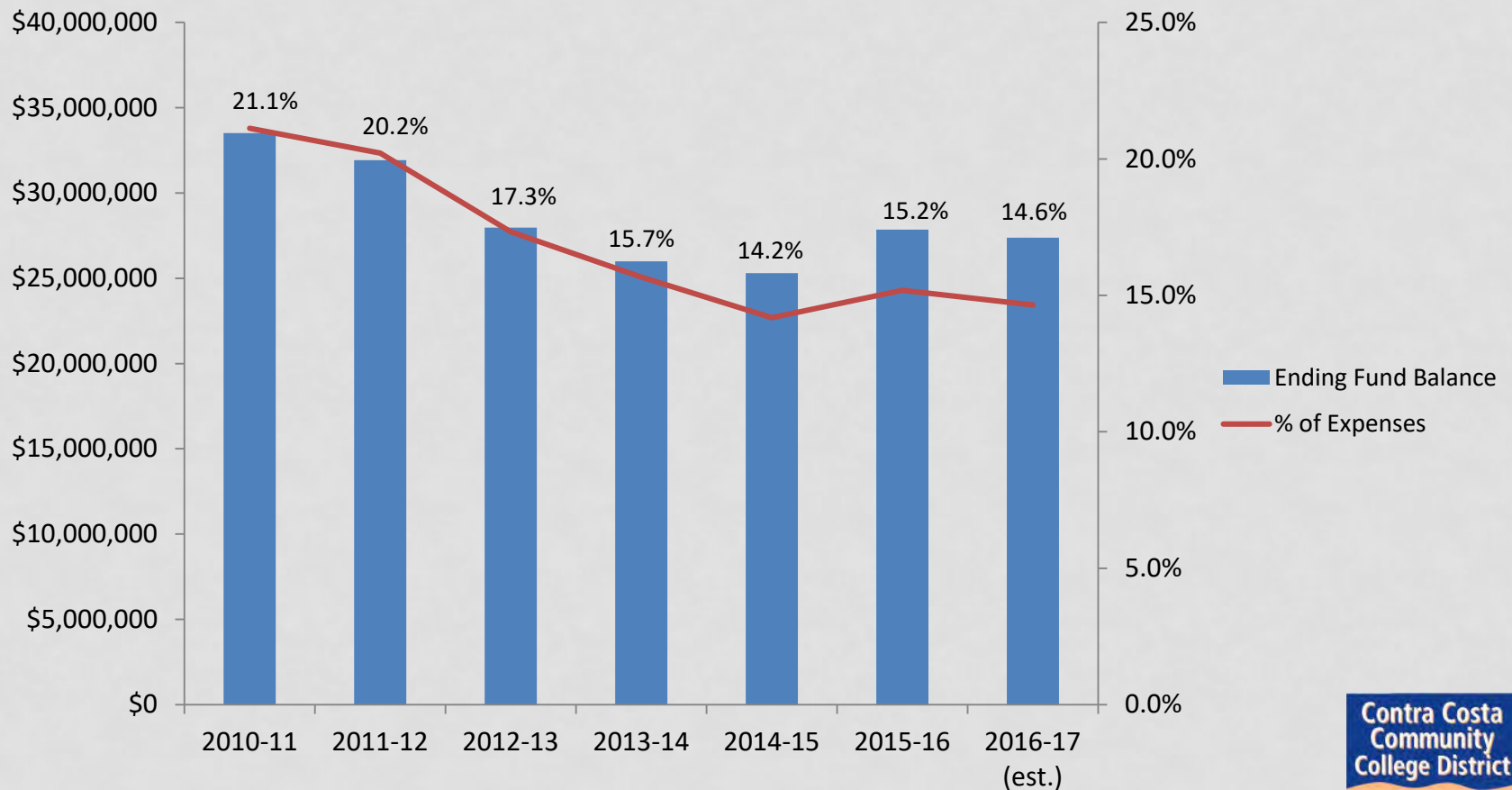
In addition, the District received significant other one-time or categorical funding

- ✓ Mandate cost claims (\$2.6M); Strong Workforce (\$5.1M)

There was no COLA given by the state. Also, the District was eligible for \$2.7M in growth dollars that it could not earn.

# FY 2016-17 ADOPTION BUDGET: OPERATING FUND BALANCE

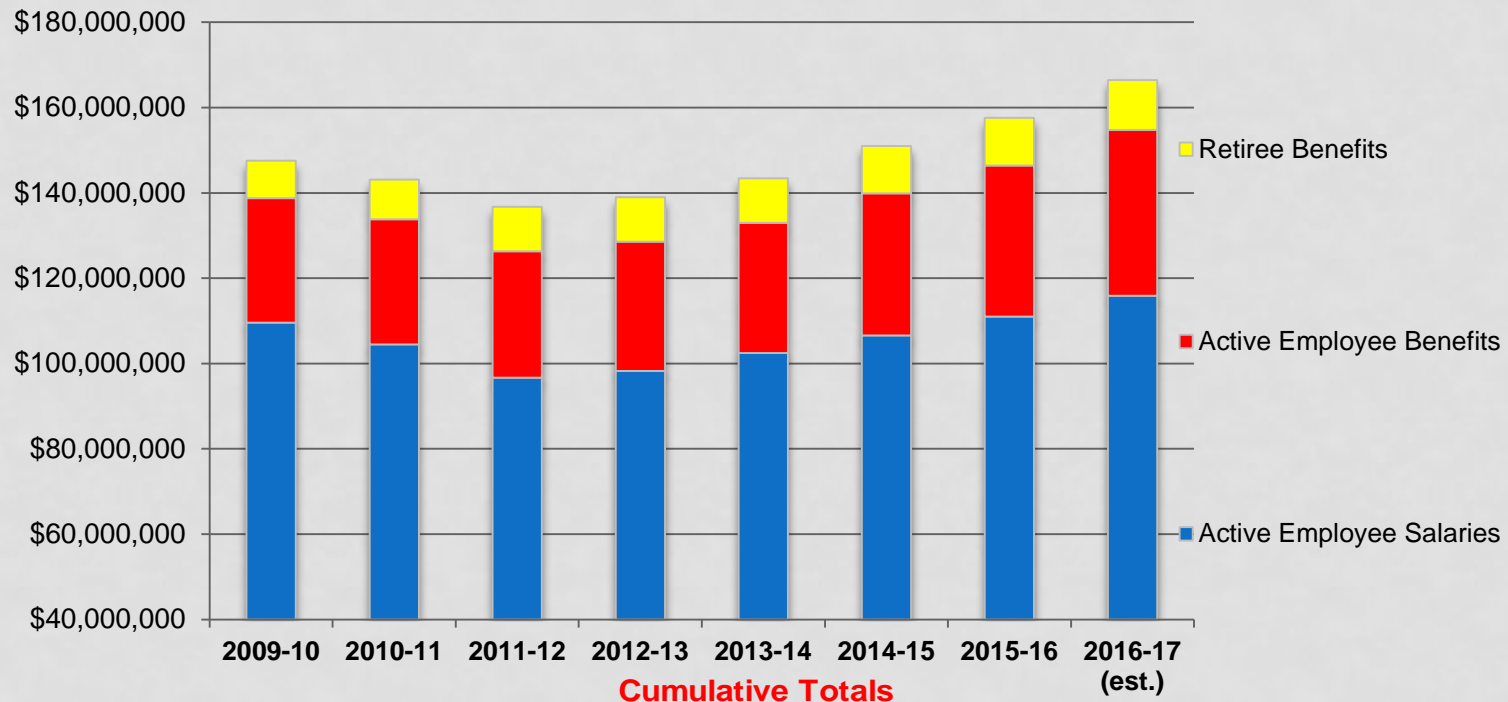
**Unrestricted General Operating Fund  
Ending Operating Fund Balance**



# SALARIES & BENEFITS

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

## Salaries and Benefits



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:	\$143.4 million (total benefits at 40.0% of salary)
2014-15:	\$151.0 million (total benefits at 41.7% of salary)
2015-16:	\$157.6 million (total benefits at 42.0% of salary)
2016-17:	\$166.4 million (total projected benefits at 43.6% of salary)



# OTHER FY 2016-17 HIGHLIGHTS

- CalSTRS Increase
  - The employer contribution rate increased from 10.73% to 12.58%, a cost increase of approximately \$1.3M to the District
- CalPERS Increase
  - The employer contribution rate went from 11.85% to 13.88% resulting in about \$760,000 cost increase to the District
- Healthcare Premiums – a mixed bag
  - Kaiser went up about 2%
  - Anthem went **up** between 0-19% depending upon the plan
    - About 3.5% increase in aggregate; year-over-year budget increase of approximately \$1.0M for active employees





# CURRENT ECONOMICS



Contra Costa College



Diablo Valley College



San Ramon Campus



Los Medanos College



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# CALIFORNIA ECONOMY

## California Data



- State unemployment rate of 5.0%
  - The state has bounced back tremendously from the greater than 12% unemployment it experienced during the Great Recession
  - California now the 6<sup>th</sup> largest economy in the world
- The rebound in the California economy has seen the Prop 98 guarantee go from \$47 billion in FY 2011-12 to an estimated \$73 billion in FY 2017-18, a 55% increase over a six year period

# BAY AREA ECONOMY

The Bay Area metropolitan area contributes disproportionately to state tax revenue and economic growth; this area includes Silicon Valley, San Francisco, San Mateo and East Bay (including Contra Costa County)



- Bay Area residents make up 17% of the state population
  - Account for 29% of personal income within the state
  - Pay 37% of personal income tax within the state
- An economic slowdown in the Bay Area would have significant ramifications to the state budget

# BAY AREA ECONOMY

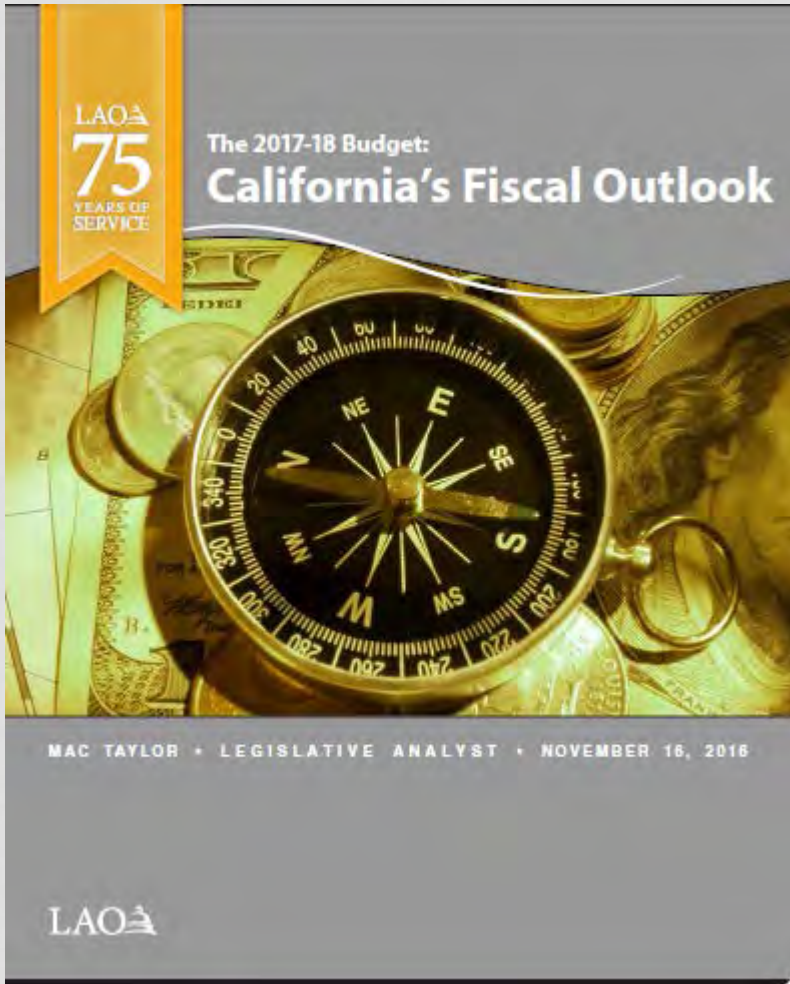
## Bay Area Contributes Disproportionately to State Income Tax Revenues

2014 Resident Tax Returns

County	2014 Population		Adjusted Gross Income		Personal Income Tax Assessed		
	Number (Millions)	Percent of Statewide Total	Amount (Billions)	Percent of Statewide Total	Amount (Billions)	Percent of Statewide Total	Per Capita (\$)
San Francisco/Oakland/ San Jose MSAs	6.5	16.8%	\$346.2	29.1%	\$22.6	37.0%	\$3,474
Orange County	3.1	8.1	107.3	9.0	5.7	9.3	1,821
Ventura County	0.8	2.2	26.4	2.2	1.2	2.0	1,439
Los Angeles County	10.1	26.1	282.9	23.8	14.5	23.7	1,434
San Diego County	3.2	8.4	97.0	8.2	4.6	7.6	1,425
Central Coast <sup>a</sup>	1.4	3.7	39.1	3.3	1.8	3.0	1,282
Napa, Solano, and Sonoma Counties	1.1	2.7	31.4	2.6	1.3	2.2	1,267
Sacramento MSA	2.2	5.8	58.8	4.9	2.4	3.9	1,063
North State <sup>b</sup>	1.2	3.2	22.4	1.9	0.7	1.2	612
San Joaquin Valley <sup>c</sup>	4.1	10.7	72.1	6.1	2.4	4.0	593
Riverside and San Bernardino Counties	4.4	11.4	81.2	6.8	2.5	4.0	559
Other residents <sup>d</sup>	0.4	1.0	23.5	2.0	1.3	2.1	3,498
<b>Totals</b>	<b>38.7</b>	<b>100.0%</b>	<b>\$1,188.2</b>	<b>100.0%</b>	<b>\$61.2</b>	<b>100.0%</b>	<b>\$1,581<sup>e</sup></b>



# 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 2020-21
- Overall the LAO expresses significant economic uncertainty past FY 2017-18; a mild recession or even a slowdown in the Bay Area would be problematic

# LEGISLATIVE ANALYST'S OFFICE

FY 2016-17: An estimated \$1.7B in revenue below budget is expected

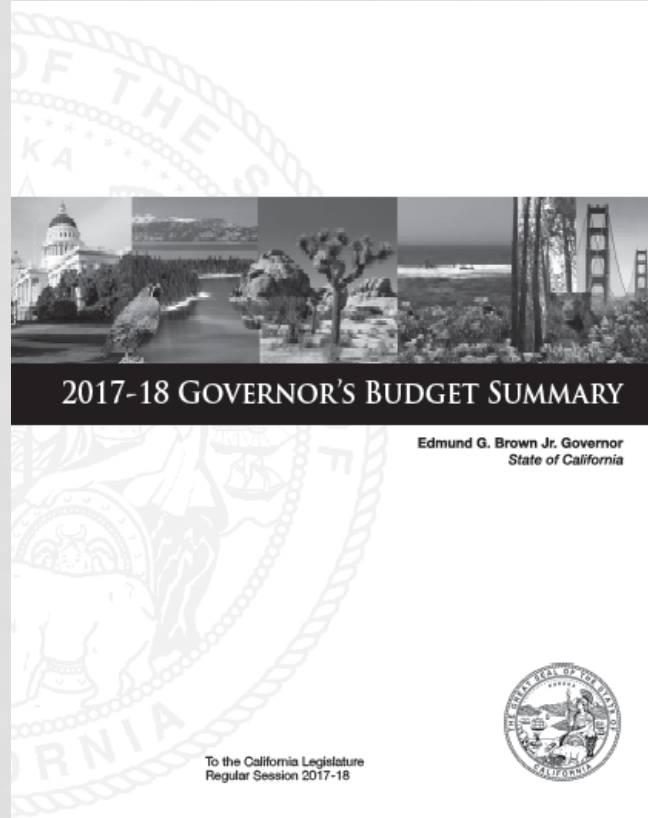
- This is a marked shift; the past few years have seen revenue come in above expectations
- State revenues have fallen short of estimates six of last eight months

FY 2017-18: Projected that revenue will grow by \$8 billion and the strong state economy will continue for at least the next 12 months

- Rainy Day Fund projected to be around \$8.7B by the end of FY 2017-18



# FY 2017-18 GOVERNOR'S BUDGET SUMMARY



Contra Costa College



Diablo Valley College



San Ramon Campus

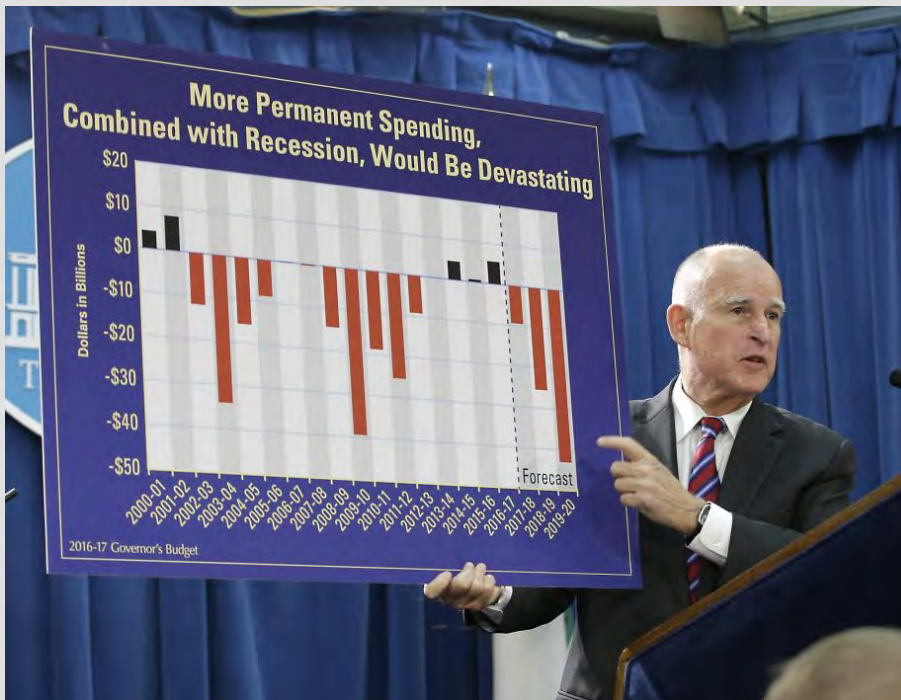


Los Medanos College



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# GOVERNOR BROWN URGES RESTRAINT

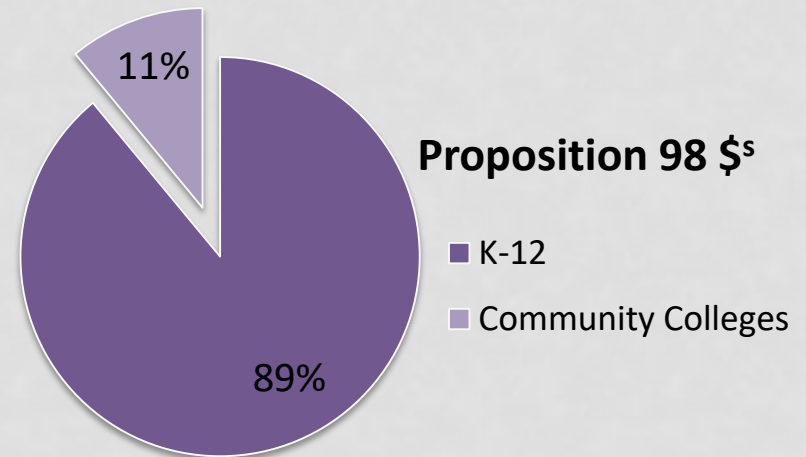


"This year's budget will be the most difficult that we have faced since 2012. The surging tide of revenue increases that we enjoyed the past few years appears to have turned."

- Governor Jerry Brown

# HIGHLIGHTS OF 2017-18 BUDGET PROPOSAL

- General Fund expenditures of \$122.5B and an estimated \$7.8B in the Rainy Day Fund (lower than LAO's previous Rainy Day Fund estimate)
- Proposition 98: The Governor estimates a FY 2017-18 Prop 98 guarantee of \$73.5B, an increase of \$2.1B, or 2.9%, 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.



# MAJOR PROPOSALS

## Growth Funding – 1.34%, (\$79.3M systemwide)

- Potential for the District to earn an additional 384 resident FTES worth approximately \$1.9M; **District is not budgeting to earn these FTES or the associated ongoing dollars**

## Cost of Living Adjustment (COLA) – 1.48%, (\$94.1M systemwide)

- Would raise the value of a credit FTES from \$5,004 to \$5,078, a \$74 per FTES increase; **this proposal would provide an additional \$2.1M in ongoing apportionment funding for the District**

## Base Allocation Increase – \$23.6M systemwide

- Increases the amount per college and center the District receives; **this proposal would result in approximately \$520,000 in ongoing funding**

# MAJOR PROPOSALS (Continued)

## Deferred Maintenance & Instructional Equipment – \$44M systemwide

- District would receive approximately \$1.0M in one-time funds

## Guided Pathways – \$150M systemwide

- The Governor proposes a \$150M one-time allocation to integrate an institution-wide approach focused on improving student success; **no known or expected revenue as DVC applied for a grant attached to this funding, but was not awarded**

# GOVERNOR'S BUDGET OVERALL

## Modest Budget

- Growth that can't be earned
- Nominal COLA and base allocation increases (\$2.6M in total) that do not cover known, ongoing, increased costs
- Restricted one-time funding with Guided Pathways receiving more funds than COLA and base allocation increases combined



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



# RETIREMENT COSTS



Known and expected cost increases make the topic of pension costs for active employees and health benefit costs for retirees an area of focus for the District



Contra Costa College



Diablo Valley College



San Ramon Campus



Los Medanos College

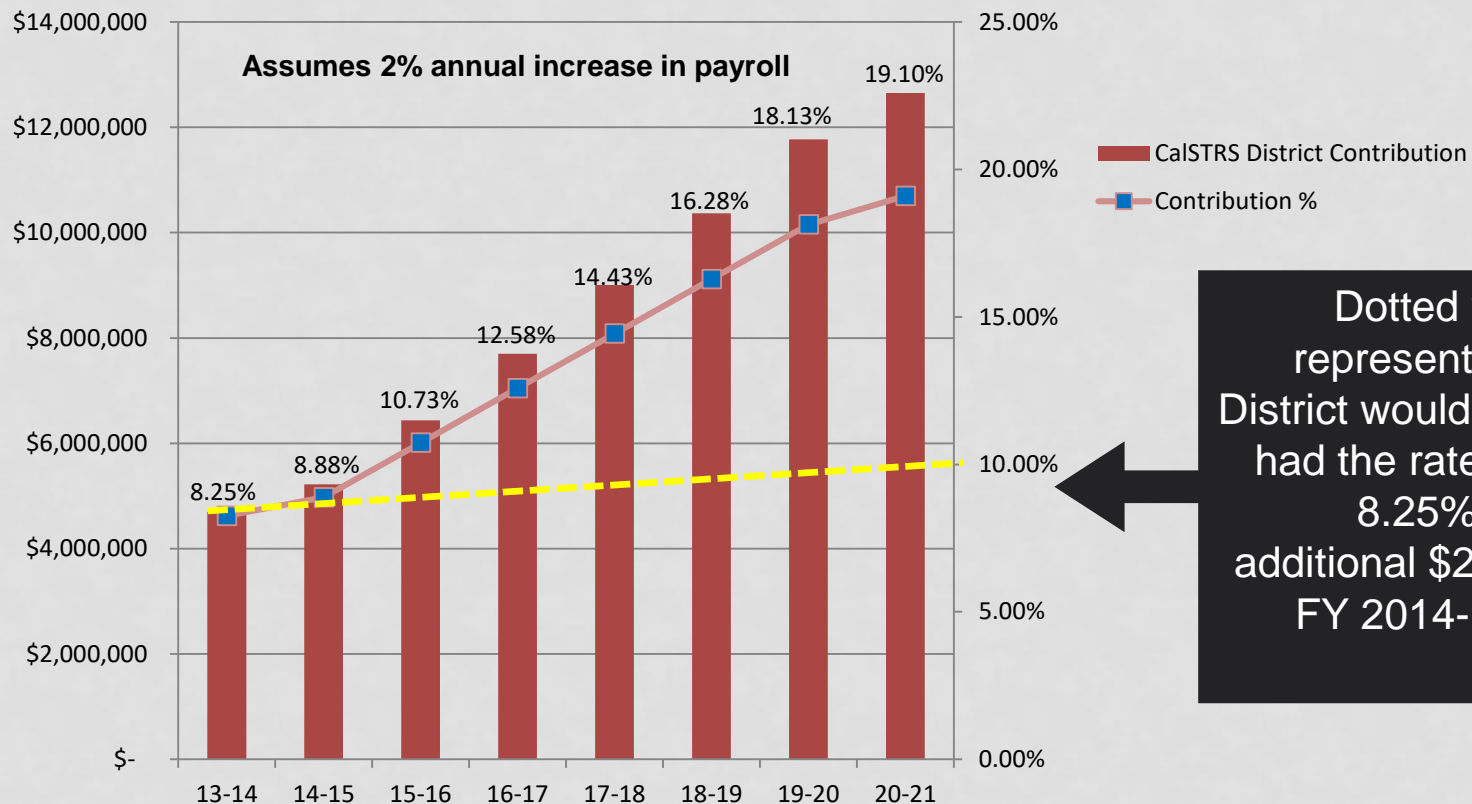


Brentwood Center

# CALSTRS EMPLOYER CONTRIBUTIONS

- From 1986 to 2014, the employer paid contribution to CalSTRS was set at 8.25% of salary
  - For 28 years, that static rate provided significant stability to participating employers
  - In the year 2000, the pension fund was over 100% funded
  - Significant stock market losses has left has CalSTRS with an unfunded liability of \$97 billion; the overall funding level now stands at 64%
- Beginning July 2014, increases to the employer contributions has occurred; these increases continue through FY 2020-21 and create considerable strain on District resources

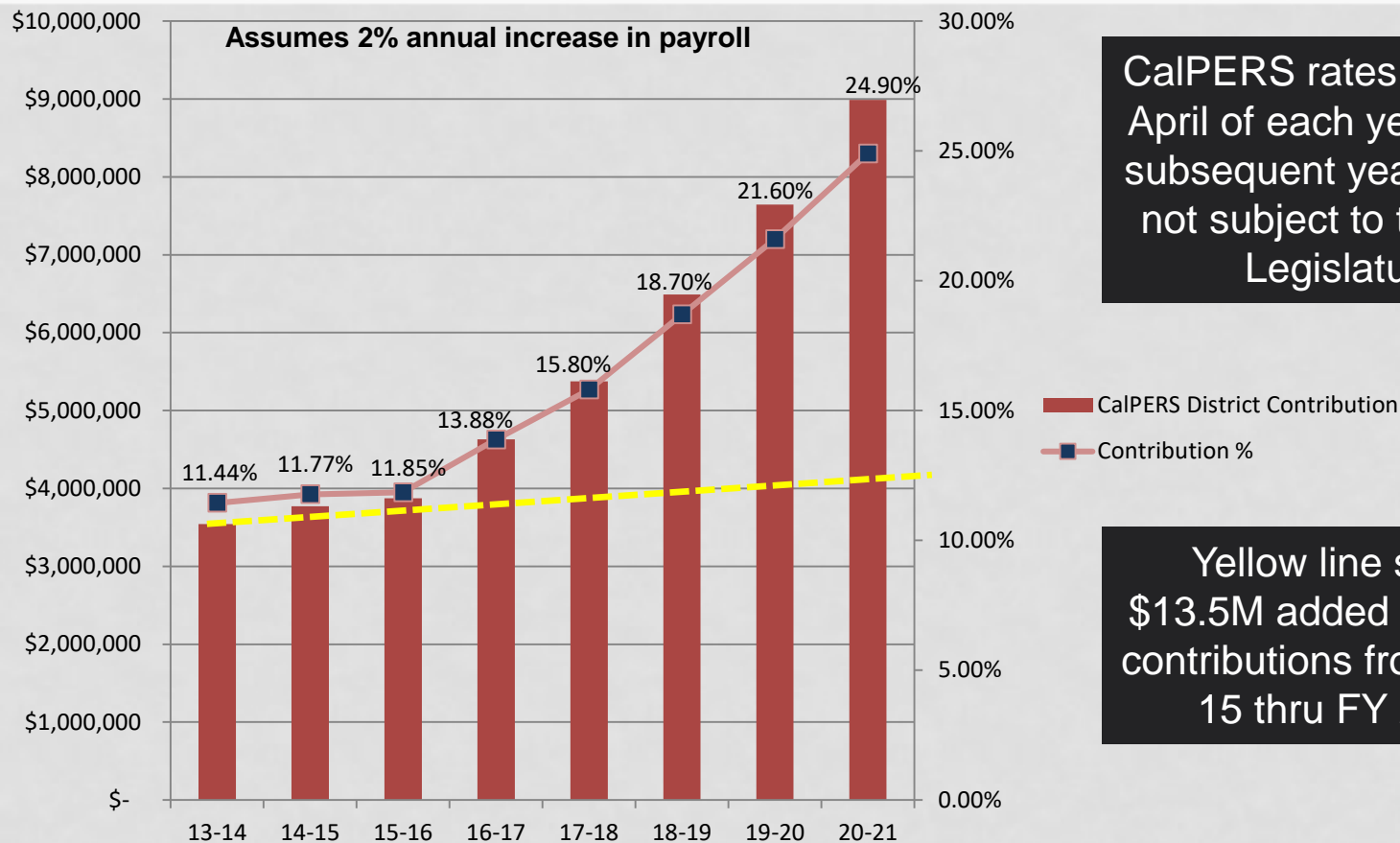
# DISTRICT CONTRIBUTION - CALSTRS



Dotted yellow line represents what the District would be paying had the rate stayed at 8.25%. Adds an additional \$27.1M 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 \$4.7M to \$12.7M.

# DISTRICT CONTRIBUTION - CALPERS

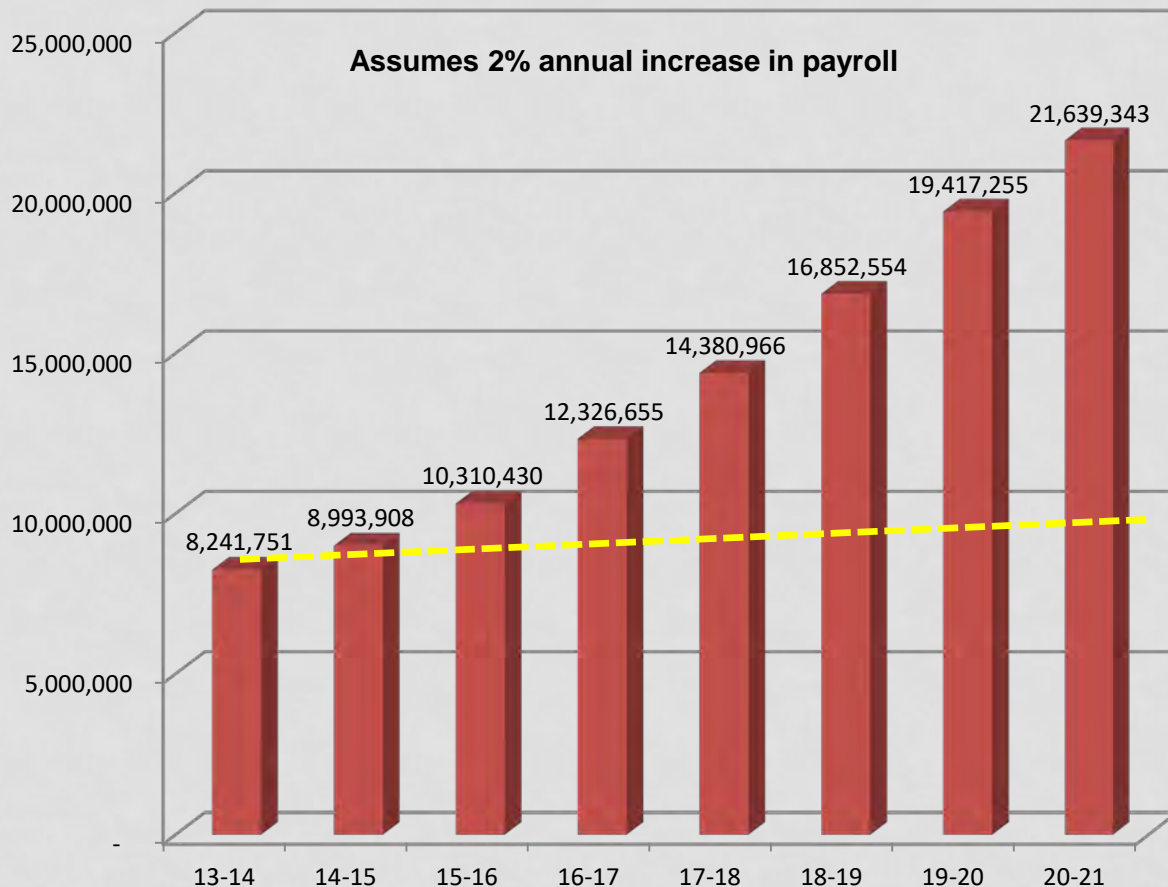


CalPERS rates are set in April of each year for the subsequent year and are not subject to the State Legislature.

Yellow line shows \$13.5M added to District contributions from FY 14-15 thru FY 20-21

The District may see its contributions go from 13.88% in FY 2016-17 to 24.9% in FY 2020-21. In this scenario, beginning with FY 2013-14, total annual dollars goes from \$3.5M to \$9.0M.

# DISTRICT CONTRIBUTION-PENSIONS



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

Yellow line shows \$40.6M added to District contributions from FY 14-15 thru FY 20-21

Total District contributed annual dollars to defined benefit pension programs go from \$8.2M to \$21.6M.

# 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

	<b>CalSTRS Increase</b>	<b>CalPERS Increase</b>	<b>Total Increase</b>	<b>% of Payroll</b>	<b>Breakeven COLA</b>	
<b>FY 2017-18</b>	1,308,600	745,711	2,054,311	1.78%	1.43%	1.48% proposed
<b>FY 2018-19</b>	1,357,864	1,113,724	2,471,588	2.09%	1.70%	
<b>FY 2019-20</b>	1,408,577	1,156,124	2,564,701	2.13%	1.73%	
<b>FY 2020-21</b>	877,918	1,344,170	2,222,088	1.81%	1.47%	

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. These COLAs would only address pension costs, not health benefits for actives and retirees.



# 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%	

# IRREVOCABLE TRUST GROWTH

**Irrevocable Trust Market Value**

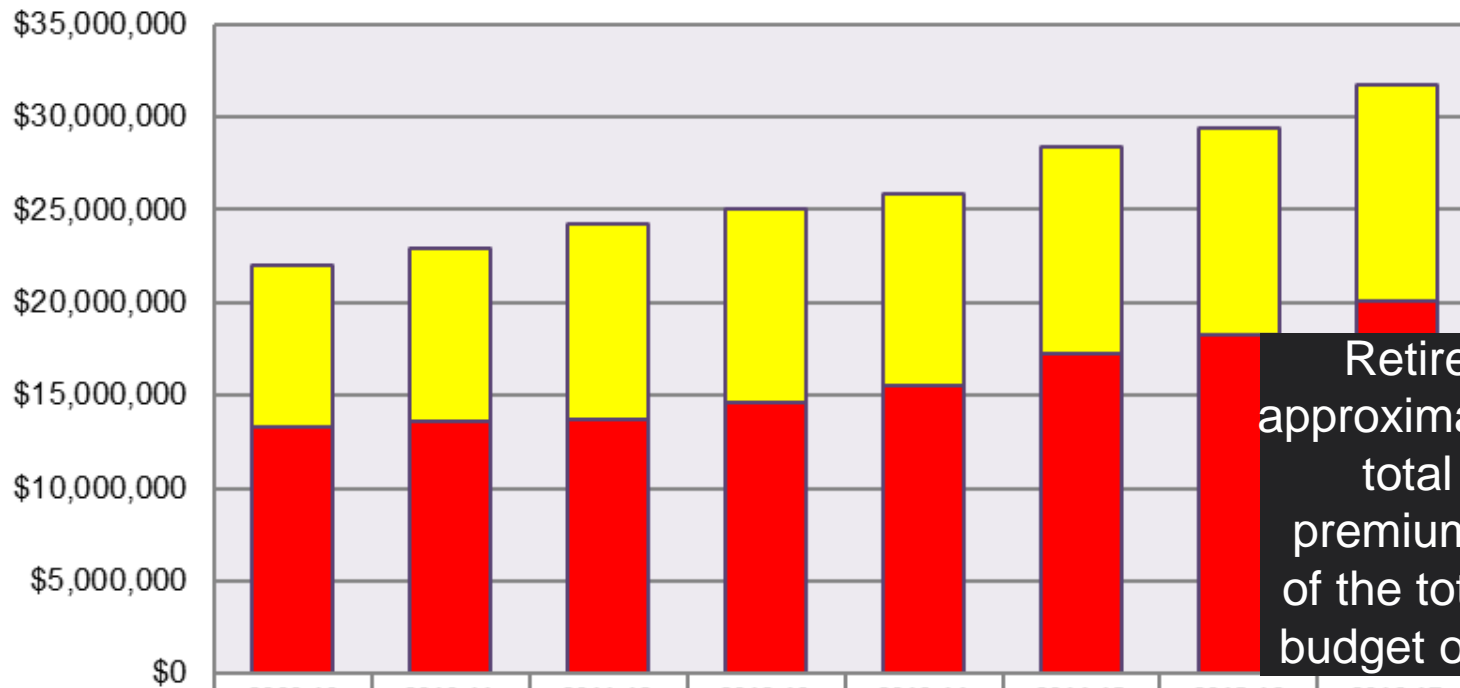
The trust has shown impressive growth; currently the District has \$91M to cover a liability of approximately \$172M; a new actuarial report will be published in the coming months



The District has funds set aside to cover its ARC through FY 2019-20

# HEALTH BENEFIT PREMIUMS

## Health Benefit Premium Costs



Retirees make up approximately 37% of total District-paid premiums and 6.5% of the total operating budget of the District

Retirees	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Active Employees	\$8,751,165	\$9,294,095	\$10,476,622	\$10,420,816	\$10,374,198	\$11,117,436	\$11,178,084	\$11,658,965
	\$13,245,803	\$13,607,401	\$13,749,185	\$14,595,072	\$15,480,708	\$17,288,504	\$18,235,877	\$20,037,754

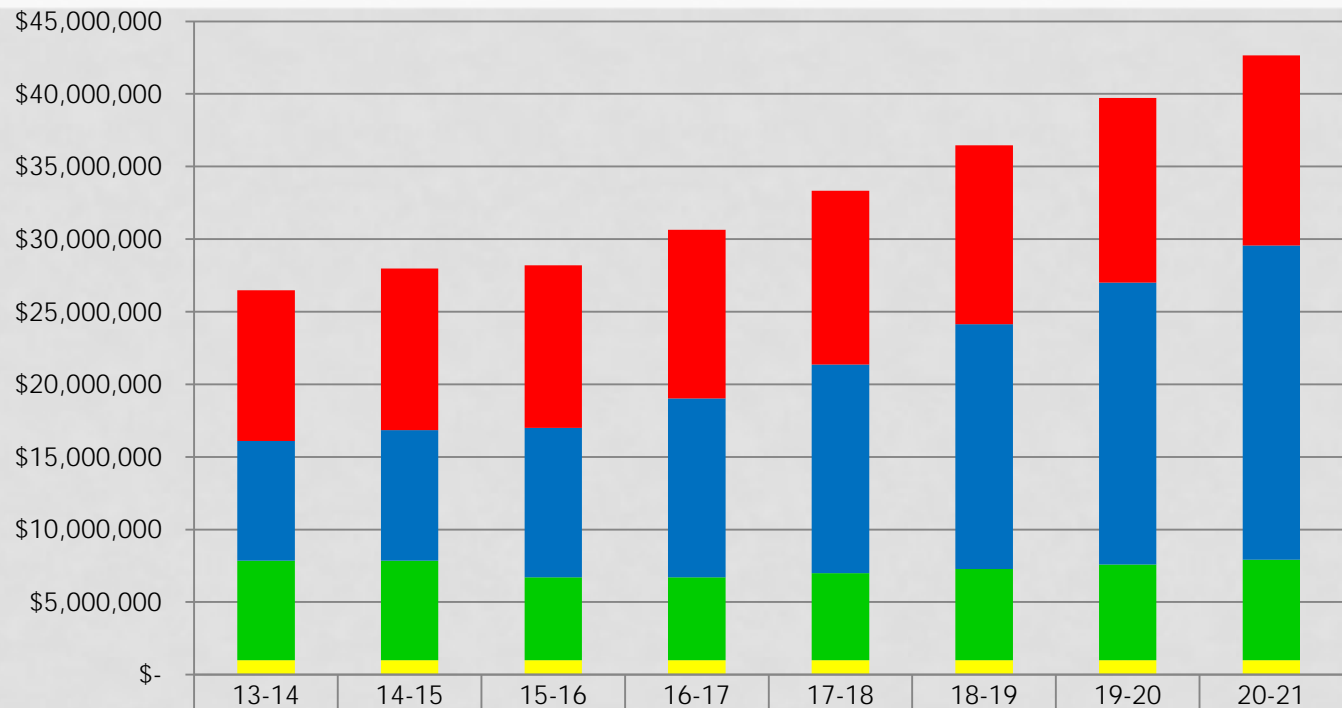
# TOTAL RETIREMENT COSTS

- If you add up all sources of retirement contributions or set-asides the District currently has on an annual basis, the cost goes from \$26.5M in FY 2013-14 to an estimated \$42.7M by FY 2020-21

**61% Increase in 7 years**

# TOTAL RETIREMENT COSTS

## District Retirement Commitments



Retiree Health Benefits	10,374,198	11,117,436	11,178,084	11,625,207	11,973,964	12,333,182	12,703,178	13,084,273
District Defined Pension Contributions	8,241,751	8,993,908	10,310,430	12,326,655	14,380,966	16,852,554	19,417,255	21,639,343
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	26,475,949	27,971,344	28,188,714	30,652,062	33,340,140	36,470,207	39,719,127	42,652,245



# LOOKING FORWARD



Contra Costa College



Diablo Valley College



San Ramon Campus



Los Medanos College



Brentwood Center

# PLANNING FOR FY 2017-18 AND BEYOND

- Budget development is ongoing and assumptions for FY 2017-18 Tentative Budget have been reviewed through the participatory governance process. Major assumptions include:
  - COLA of 1.48%
  - No Growth will be budgeted
  - Increase in health benefits of 6.8%
- Growing year-over-year FTES is a major goal
  - Reach FTES base to take advantage of available growth funding from the state and strengthen the District's position for the next time the state has a significant decline
- Other concerns:
  - Unfunded Liabilities (Retiree Health Benefits and Compensated Absences)
  - Pension Costs
  - Health and Welfare Costs
  - All these concerns will be transparently addressed through the annual budget development process done through participatory governance

# QUESTIONS?

