5TH ANNUAL STUDY SESSION ON DISTRICT BUDGET

APRIL 28, 2010

Chancellor's Office
Contra Costa Community College District
500 Court Street
Martinez, California 94553

STUDY SESSION ON DISTRICT BUDGET

AGENDA

I. Review of District Budget materials for FY 2009-10 and FY 2010-11

II. Direction from the Governing Board

PURPOSE

The Budget Study Session is conducted annually in April so that the chancellor and staff can (1) share the status of the budget for the current year; (2) share what is known regarding the upcoming year; and (3) give the Governing Board the opportunity to provide direction to the chancellor on the items to be included in the budget.

STUDY SESSION ON DISTRICT BUDGET

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VALUES AND PARAMETERS FOR BUDGET DEVELOPMENT AND PREPARATION

In preparing the annual budget for the District, the goal is to develop a balanced budget that provides for programs and services that meet the needs of the community served by the Contra Costa Community College District. The budget will be developed within the context of the values and parameters below.

Values

The foundation of the budget development process is a belief in basic, shared values: honesty, integrity, transparency, and an overall sense of collegiality. Fiscal prudence will be exercised in the development and management of the budget. These values are ensured by the following:

- discussions and all actions are student-centered;
- communication of financial information is relayed to ensure dialogue among constituencies and honest portrayal of the District's financial condition;
- decisions on financial matters are data driven;
- District budget practices are comparable to institutions of similar size and scope; and.
- items included in the budget will be based on need.

Parameters

To the extent possible, the budget will:

1. allow the resources sufficient for meeting the needs of the diverse student population of the District;
2. be developed based on achievable FTES goals that provide for the highest possible level of student access;
3. maintain a minimum emergency fund balance reserve of 5% of the unrestricted general fund budgeted expenditures for the fiscal year;
4. provide sufficient funding to ensure an appropriate number of faculty, classified staff and management personnel to fulfill the mission of the District and its colleges;
5. provide for contractual obligations and fixed costs;
6. cover the current year retiree health benefit expenses and increase restricted reserves for the retiree health benefit liability;
7. include funding for new Districtwide projects based on District goals;
8. adhere to formulae stipulated in Business Procedures;
9. budget and restrict college year-end carryover balances for one-time expenditures only;
10. maintain and improve the colleges in a manner that attracts students and provides an environment that promotes education, including providing matching funds;
11. include total compensation which will be in the top one-third of the Bay 10, excluding basic aid districts, only if the District can afford it;
12. reflect improvement in productivity at all levels; and
13. be developed within a multi-year plan.

Sound Fiscal Management Checklist

Pursuant to Education Code (EC) Section 84040, the Board of Governors for the California Community College Systems is required to adopt criteria and standards for the periodic assessment of the fiscal condition of California community college districts. Based on these requirements the System Office established standards for sound fiscal management and a process to monitor and evaluate the financial health community college districts. The System Office monitors and assesses a district's financial condition through:

- Quarterly Financial Status Reports (CCFS-311Q)
- Annual Financial and Budget Reports (CCFS 311)
- Annual District Audit Reports
- Apportionment Attendance Reports (CCFS 320)
- District Responses to Inquiries
- Other available information (Accounting Advisory 05-05)

The System Office has developed the Sound Fiscal Management Checklist as a tool to assist districts in monitoring the fiscal health of the District and encourages districts to regularly complete the checklist with their Board and executive staff.

Question	Answer	Explanation
1. Deficit Spending		
Is this Area Acceptable?	Yes	
Is the District spending within their revenue budget in the current year?	No	Due to the State workload reduction, deferrals, and increased costs, the District is using $4.2M of reserves in FY 2009-10 to soften the blow of the loss of revenues.
Has the District controlled deficit spending over multiple years?	Yes	The District has built up the ending fund balance since FY2003-04 primarily by identifying and setting aside one-time, unrestricted revenues.
Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions?	Yes	The District makes a budgetary distinction between "on-going" and "one-time" revenues and expenditures. For FY 2009-10, the District's on-going expenses are budgeted in excess of on-going revenues.
Are District revenue estimates based upon past history?	Yes	Non-apportionment revenues are based upon past history and adjusted for known changes. Full-time Equivalent Students (FTES)-related revenues are based upon FTES projections for each college.
Does the District automatically build in "growth" in growth revenue estimates?	No	The District bases its apportionment revenue on projected FTES, which include either growth or decline as projected utilizing trend data and State funding availability.

2. Fund Balance		
Is this Area Acceptable?	**Yes**	
Is the District's fund balance stable or consistently increasing?	Yes	The ending fund balance has steadily increased since FY 2003-04 growing from $8,642,592 to $29,366,269 in FY2008-09. Approximately $6M of this increase is attributed to not properly recognizing the long-term liability of faculty load banking.
Is the fund balance increasing due to ongoing revenue increases and/or expenditure reductions?	Yes	The increase in fund balance has occurred due to a combination of expenditure control in FY 2003-04, FY 2004-05, and 2005-06, and revenue increases in FY 2007-08, FY 2008-09 due to restoration in FTES.

3. Enrollment		
Is this Area Acceptable?	**Yes**	
Has the District's enrollment been increasing or stable for multiple years?	Yes	The District's enrollment peaked in 2002-03 and declined until FY 2006-07. The District almost restored to base FTES in 2008-09 and is projected to be over cap in FY 2009-10 due to Statewide workload reductions.
Are the District's enrollment projections updated at least annually?	Yes	Enrollment projections are monitored throughout each semester and updated when the CCFS 320 is completed in January, April, and July.
Are staffing adjustments consistent with the enrollment trends?	Yes	Budget formulas are utilized to determine funding for new full-time faculty, hourly faculty, and classified positions; the formula is adjusted for enrollment growth/decline.
Does the District analyze enrollment and full-time equivalent student (FTES) data?	Yes	The colleges and Cabinet review current trends and develop both college and District projections.
Does the District track historical data to establish future trends between P-1 and annual for projection purposes?	Yes	The District produces periodic reports of enrollment trends and utilizes multi-year analyses in developing projections.
Has the District avoided stabilization funding?	No	The District has received stabilization funding in FY 2004-05 and FY 2008-09. The District will exceed its funded FTES in FY 2009-10.

4. Unrestricted General Fund Balance		
Is this Area Acceptable?	Yes	
Is the District's Unrestricted General Fund Balance consistently maintained at or above the recommended minimum prudent level (5% of the total Unrestricted General Fund expenditures)?	Yes	Over the previous five years, the District has maintained at least a 5% fund balance and in the 2008-09 budget a 5% "Board Contingency Reserve" was established in addition to the on-going 5% contingency reserve.

Is the District's Unrestricted Fund Balance maintained throughout the year?	Yes	The District's Unrestricted Fund Balance is maintained and monitored throughout the year.
5. Cash Flow and Borrowing		
Is this Area Acceptable?	Yes	
Can the District manage its cash flow without interfund borrowing?	Yes	The District has never used interfund borrowing due to the County Teeter plan, which advances local property taxes.
Is the District repaying Tax Revenue Anticipation Notes (TRANS) and/or borrowed funds within the required statutory period?	N/A	
6. Bargaining Agreements		
Is this Area Acceptable?	Yes	
Has the District settled bargaining agreements within new revenue sources during the past three years?	Yes	After not giving salary increases and actually reducing salaries over a three-year period, the District restored salaries by FY 2007-08 and was able to give increases based on restored ongoing revenues in FY 2008-09. The District did not give salary increases in FY 2009-10. Ongoing salary increases are determined based on an agreed upon formula taking into consideration ongoing restoration revenue, new resources and permanent expenditure reductions. Based on workload reductions and categorical reductions the District was not in the position to give any salary increases.
Did the District conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement?	N/A	
Did the District correctly identify the related costs?	N/A	
Did the District address budget reductions necessary to sustain the total compensation increase?	N/A	

7. Unrestricted Fund Staffing		
Is this Area Acceptable?	Yes	
Is the District ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses?	Yes	The District differentiates ongoing and one-time funding to ensure that one-time monies are not being used for ongoing expenditures. The District has been accruing an unfunded liability of load banking by not expensing properly.
Is the percentage of District General Fund allocated to salaries and benefits at or less than the statewide average (i.e., the statewide average for 2007-08 was 83.4%).	No	For 2008-09, the percentage of the general Fund that was expended for salaries and benefits was 86.7%. In 2009-10, the percentage of the General Fund budgeted for salaries and benefits is 86.5%.

8. Internal Controls		
Is this Area Acceptable?	No	
Does the District have adequate internal controls to insure the integrity of the general ledger?	No	Self-identified deficiencies and audit findings indicate a need to strengthen the internal controls of the District's financial and payroll processes. The District is making significant progress in this area.
Does the District have adequate internal controls to safeguard the District's assets?	No	Auditor's findings and recommendations related to material weaknesses in reconciliations and subsidiary ledgers are currently being addressed. The District has made significant progress in this area and is still working on ensuring appropriate internal controls.

9. Management Information Systems		
Is this Area Acceptable?	Yes	
Is District data accurate and timely?	No	Prior year practices of closing the year-end financial records well into the subsequent year have resulted in unreliable data at certain points in the fiscal year. Measures are being taken to correct this practice.
Are the county and state reports filed in a timely manner?	Yes	All reports are submitted to reporting agencies by their appropriate deadlines.
Are key fiscal reports readily available and understandable?	Yes	Many reports are available on the District's web site as part of the agenda materials provided to the Governing Board.

10. Position Control		
Is this Area Acceptable?	Yes	
Is position control integrated with payroll?	No	Hourly positions reside outside the position control process. Position control was not fully integrated during the implementation of Datatel and in order to ensure appropriate integration a major effort to correct the data will begin in FY 2010-11.
Does the District control unauthorized hiring?	Yes	Hiring is overseen by the District's Human Resources Department. Regular positions are validated by the Finance Department for budget only. The colleges have instituted position controls.
Does the District have controls over part-time academic staff hiring?	Yes	Part-time academic staff hiring is overseen by the colleges and monitored through budget allocations.

11. Budget Monitoring		
Is this Area Acceptable?	Yes	
Is there sufficient consideration to the budget, related to long-term bargaining agreements?	Yes	The District prepares multi-year projections of the Unrestricted General Fund, including the effects of bargaining agreements.
Are budget revisions completed in a timely manner?	Yes	Budget revisions are made as requested, either by Board action or campus decisions. The revised budgetary figures are taken to Board on a monthly basis for review purposes. The Board approves budget revisions on a quarterly basis.
Does the District openly discuss the impact of budget revisions at the Board level?	Yes	On a quarterly basis, at its public meeting, the Board receives a report detailing the revisions that have been made during the quarter.
Are budget revisions made or confirmed by the Board in a timely manner after the collective bargaining agreements are ratified?	Yes	The Board formally approves all budget revisions on a quarterly basis. Any changes made to the budget due to collective bargaining agreements are included in subsequent fiscal reports.
Has the District's long-term debt decreased from the prior fiscal year?	No	In 2002 and 2006, voters approved the District's issuance of $120M and $286.5M (respectively) in capital bonds. As each portion of the total bonds is issued, the overall debt increases.
Has the District identified the repayment sources for the long-term debt?	Yes	The voter-approved bonds are repaid through tax levies. Per GASB 16, the District funds the current portion of its accrued compensated absences (the District is not obligated to fund the long-term portion).

Does the District compile annualized revenue and expenditure projections throughout the year?	Yes	The Board receives monthly reports comparing the revenues and expenditures to budgeted amounts, and the percentage received/spent (to-date) to the percentage of the year completed.
12. Retiree Health Benefits		
Is this Area Acceptable?	Yes	
Has the District completed an actuarial calculation to determine the unfunded liability?	Yes	The last actuarial calculation was performed as of June 2008. The District's unfunded liability is $262M..
Does the District have a plan for addressing the retiree benefits liabilities?	Yes	By the end of FY 2009-10, the District will have set aside over $53M towards funding this liability. The District selected a financial advisor, appointed a Retirement Board of Authority, prepared a substantive plan, and funded $9.1M into an irrevocable trust.
13. Stable Leadership		
Is this Area Acceptable?	Yes	
Has the District experienced recent turnover in its management team (including Chief Executive Officer, Chief Business Officer, and Board of Trustees)?	Yes	The Chancellor is in her fifth year and has been with the District for over 19 years. The Governing Board has five members, one elected in November 2008; two who have served for two or more years; and two who have served for more than nine years. There was turnover in the leadership of the financial area in FY 2007-08 with positions filled by experienced managers in FY 2008-09 and FY 2009-10.
Does the District compile annualized revenue and expenditure projections throughout the year?	Yes	The Board receives quarterly financial statements on all funds of the District and periodic "Fiscal Trends" reports comparing the revenues and expenditures to budgeted amounts, and the percentage received/spent (to-date) to the percentage of the year completed.

Audit Findings Update

The annual financial audit for the District conducted by Vavrinek, Trine, Day & Co., LLP for FY 2007-08 reported five findings, two of which are material findings related to internal controls. In order to keep the Board updated on the progress of implementing policies, procedures and processes to address the audit, the following matrix details the main issue of the audit, the responsible managers, timeframe for resolution, and progress to date.

2007-2008 Audit Findings	Description of Recommendation	District Action	Responsible Managers	Target Date of Completion	Results
2008-1	Reconciliations and adjustments done in a timely manner for closing and completion of CCFS 311	Implement reconciliation procedures to include periodically reconciling account through the fiscal year	Vice Chancellor and Director of Fiscal Services	Closing for FY 2009	Partially implemented; progress made, see 2009-1
2008-2	Develop management reports that allow for review of old, outstanding items and assessment of write-off and validity	District works with Datatel and staff to develop appropriate accounts payable and accounts receivable management reports and reconciles the student receivable account	Vice Chancellor and Director of Fiscal Services	June 2010	Partially implemented; progress made, see 2009 -3
2008-3	Establish a policy requiring an annual observation of equipment inventory and reconciliation procedure	Implement a routine review of physical inventory	Vice Chancellor, Director of Fiscal Services, Purchasing Director, College Business Officers	June 2009	Implemented for equipment purchased with federal funds
2008-4	Develop and implement a master contract that contains all required elements for Instructional Service Agreements	The District has developed a new, standard format that is currently in use.	Director of Fiscal Services, Purchasing Director, Office of Instruction	Continue to monitor	Implemented
2008-5	Develop and implement a process to monitor student files for required documentation. Develop a checklist for CalWORKS	The District will develop and implement procedures to ensure all student files are complete to include eligibility documentation.	Director of Fiscal Services, CalWORKS Coordinators	June 2009	Implemented

2008-2009 Audit Findings	Description of Recommendation	District Action	Responsible Managers	Target Date of Completion	Progress
2009-1 Material Finding	Year end closing procedures need to continue to be improved to include all significant accruals in Annual Financial and Budget Report	Improve year end closing procedures to ensure all significant accruals and adjustments reflect accurate finances	Vice Chancellor, Associate Vice Chancellor, Director of Fiscal Services	Closing for FY 2010	Fiscal Services procedures are being documented for the FY 2010 close.
2009-2 Material Finding	Payroll clearing account balances are not supported by detailed payroll clearing reconciliations.	Implement timely processing, posting, and reconciliation of payroll. Review and validate payroll transactions.	Vice Chancellor Associate Vice Chancellor Director of Fiscal Services	June 2010	Accounts under review and procedures are in development.
2009-3 Significant Deficiency	Bookstore subsidiary ledger reports accounts receivable and payable detail reports do not agree with amounts reported in trial balances.	District will monitor bookstore transactions on a regular basis.	Associate Vice Chancellor Director of Fiscal Services College Business Officers	June 2010 and ongoing.	Working with bookstores to develop internal procedures.
2009-4	District does not have a systematic procedure to document the cost of instructional materials required for each class. Instructional material fees charged to students are not documented.	The District will work with the colleges to develop a method to track instructional materials costs and compare charges to fees that are charged to students.	Associate Vice Chancellor, Director of Fiscal Services, College Representa-tives	June 2010	Documenting college procedures; developing standardized reporting.
2009-5	District is out of compliance with State requirements regarding maintaining evidence of approvals from the principal and parents for the special admit full-time and part-time students.	The District will work with the colleges to develop procedures to review and maintain the necessary approvals for concurrently enrolled students	Associate Vice Chancellor, Director of Fiscal Services. Director of Admissions and Records	June 2010	Fully implemented

BUDGET DEVELOPMENT CALENDAR
FY 2010-11 Status Report

The following is a listing of the actions to be undertaken in the development of the budget for 2010-11. The Budget Calendar adheres to the guidelines for preparation of the annual budget as set forth in the California Code of Regulations and Board Policy 5033.

November	Resident and non-resident FTES targets set for fiscal year (FY 2010-11).
	Budget Development Calendar goes to Chancellor's Cabinet, District Governance Council (DGC), and the Governing Board.
	District Office provides year budgets to Chancellor's Cabinet for prior fiscal year.
	Districtwide educational planning meeting (11.2.09)
	Box 2 A meeting (11.17.09)
January	District files Apportionment Attendance Report (CCFS 320) for the first period attendance (summer and fall).
February	Enrollment and FTES projections updated by the District Office and provided to the colleges.
	First Principal Apportionment issued by the State System Office.
	District estimates revenue projections based on January CCFS 320 submittal for current fiscal year and for FY 2010-11.
	District provides colleges with estimated revenue projections and personnel costs to colleges (end of February).
	District leadership conducts a budget workshop with DGC.
	Budget parameters and values reviewed by Governing Board.
April 1	Colleges, District Office, and Districtwide services provide expenditures to the District to start development of Tentative Budget.
April	Budget Forums at all District locations.
	District files Apportionment Attendance Report (CCFS 320) for the second period (spring).
	Chancellor's Cabinet reviews FTES projections and revises as necessary all growth targets.
April 28	Board study session on Budget.
May	District updates revenue projections based on CCFS 320 and May Revise.
May 18	Budget Workshop for DGC.
June 15	Chancellor's Cabinet reviews Tentative Budget.
June 15	DGC reviews Tentative Budget
June 30	Tentative Budget is submitted to Governing Board for approval.

July 1	Deadline to file approved Tentative Budget with the County Superintendent of Schools.
July 15	District files Apportionment Attendance Report (CCFS 320) for third period (April 15 to June 30).
August	District leadership prepares the Final (Official) Budget.
	Carryover calculations completed for the prior year.
	Chancellor’s Cabinet reviews proposed Adoption Budget.
	DGC reviews proposed Adoption Budget.
August 24	Newspaper publications notified of the availability of the Adoption Budget.
August 31	Adoption Budget available for public inspection.
September 8	Governing Board conducts a public hearing for the 2010-11 Adoption Budget and considers approval of the budget presented.
	The finalized Adoption Budget is filed with the County Superintendent of Schools and with the California Community Colleges Chancellor's Office.
October 10	Annual Financial and Budget Report (CCFS 311) is filed with the State System Office for year-end FY 2009-10 and the budget projections for FY 2010-11.
October	District may file an Adjustment Application - FTES (CCFS 317) to adjust FTES.
Throughout the year	The Governing Board approves budget transfers and budget adjustments per Board policy.

Planning for Development of FY 2010-11 Budget

The budget planning for FY 2010-11 is a continuation of the State budget crisis with the Governor declaring another "fiscal emergency" right after releasing his budget proposal on January 8, 2010. A $19.9 billion (B) structural shortfall is projected over the next 18 months, $6.6B in FY 2009-10 and $12.3B in FY 2010-11. The Governor's Budget is based on:

- $8.5B in expenditure reductions
- $6.9B in federal funds
- $4.5B in alternative funding/funding shifts

Community colleges are not targeted as part of the $8.5B reductions, although Proposition 98 is targeted for a reduction of $2.4B. The Governor's budget projects the following Proposition 98 split between the California Community College System (CCCS) and K-12 for FY 2009-10 and 2010-11:

- FY 2009-10 split: CCCS - 11.41 percent / K-12 - 88.59 percent
- FY 2010-11 split CCCS – 11.82 percent / K-12 – 88.18 percent
- A year to year increase projected at $219M for the CCCS

Staff is taking a conservative approach to planning the budget for FY 2010-11 based on the information contained below. At the time of this report the State revenues are rebounding gradually.

State Budget Impact on the District Budget

FY 2009-10 Systemwide Reductions

- The Chancellor's Office revised first Principal Apportionment reports in late February 2010 and again in March 2010. First Principal Apportionment projections do not include a property tax shortfall.
  Impact: The District has been conservatively holding onto reserves based on the possibility of a shortfall in property taxes.

- A portion of January, February, March and April apportionment payments is deferred to July 2010.
  Impact: Contra Costa Community College District (District) Apportionment Revenues in the amount of $11.5M are deferred until July 2010. The District continues to lose interest revenue projected at approximately $600,000 for FY 2009-10 due to the deferrals.

FY 2010-11 Proposed Systemwide Budget Projections

- Proposed student fees at $26 per unit (no increase)

- Cal Grant programs were left intact.

- District is projecting a negative .38% cost-of-living-adjustment (COLA), although it is projected, the negative COLA will not make it through the political process.
  Potential impact: A negative COLA will reduce our revenues by $560,000. The District depends on the state's COLA to maintain its level of service to students. The District faces higher costs in staffing, health care and other goods and services. Without COLA, the District will be stretched to find resources for ongoing and increased costs.

- The Governor's budget projected 2% growth, although the projections have been made that there will be no growth funding.
  Potential impact: The District is not budgeting any growth funds at this time due to the State deficit projections.

Status of FY 2009-10 District Budget

The District will exceed its funded resident FTES in FY 2009-10. There are over 31,000 resident FTES and 1,800 non-resident FTES.

2009-10 FTES Targets			
	Resident	Non-Resident	Total
CCC	6,117.92	161.48	6,279.40
DVC	15,836.07	1,502.99	17,339.06
LMC	8,383.66	79.48	8,463.14
Total	30,337.65	1,743.95	32,081.60

The District reserve for the unrestricted general fund is projected to be $23,326,878 based on the following assumptions: The college and District Office (DO) reserves have been significantly reduced due to the budget reductions.

- $3.6M reserve reduction to backfill FY 2009-10 cuts.
- $645,000 reserve reduction used to backfill colleges due to categorical reductions
- Budget corrections identified mid-year
- Use of college reserves to soften reductions

The following chart illustrates the FY 2009-10 budget reductions:

	Base Allocation	FY 09-10 Reduction
	a	b
CCC	$ 30,729,783	$ (1,409,609)
DVC	$ 72,117,704	$ (3,230,120)
LMC	$ 37,317,508	$ (1,726,059)
DO	$ 7,978,026	$ (372,754)
DW	$ 14,006,487	$ (1,188,263)
Regulatory	$ 8,748,285	$ -
Utilities	$ 4,245,522	$ -
International Ed	$ -	$ -
Total	$ 175,143,315	$ (7,926,805)

Revenues, Expenditures, and Reserve Projections for FY 2010-11

	FY 2009-10 Adoption Budget	BY 2009-10 Projected Budget	Changes
Beginning Balance	**$ 29,376,269**	**$ 29,432,047**	**$ 55,778**
Revenues	**$161,732,873**	**$165,263,231**	**$ 3,530,358**
Expenditures	**$165,378,578**	**$171,368,400**	**$ 5,989,822**
Reserves (Ending Balance)	**$ 25,730,564**	**$ 23,326,878**	**$-2,403,686**

FY 2009-10 TO FY 2010-11 RESERVES

	FY 2009-10 ADOPTION BUDGET	FY 2009-10 PROJECTED
BOARD 5% RESERVE	$8,268,370	$8,268,370
BOARD ADDITIONAL 5%	$8,268,370	$8,268,370
COLLEGES/DO	$5,345,446	$3,750,216
ENCUMBRANCES	$202,674	0
UNDESIGNATED RESERVE	$3,645,704	$3,039,922
TOTAL	$25,730,564	$23,326,878

ASSUMPTIONS FOR DEVELOPMENT OF THE FY 2010-11 TENTATIVE BUDGET

The District has set FTES targets for FY 2010-11 as noted in the following chart. The FTES targets are based on the 3.39% State mandated workload reduction imposed in FY 2009-10.

2010-11 FTES Targets			
	Resident	Non-Resident	Total
CCC	6,199.02	167.43	6,366.45
DVC	15,392.89	1,572.38	16,965.27
LMC	8,245.39	82.78	8,328.17
Total	29,837.30	1,822.59	31,659.89

The following assumptions are based on the Governor's budget (January 2010) and projected increases as known as of April 14, 2010:

- Revenue reduction of $560,000 due to .38% COLA
- Health benefits are projected to increase $8.5% - $1.86M
- Step, class, and longevity increases are estimated at $1.9 M
- Public Employees Retirement System (PERS) increase projected at $169,000
- State Unemployment Insurance (SUI) projected at 140% increase - $527,000
- Property and liability insurance and Workers Compensation are not estimated to increase.

PROJECTED FY 2010-11 TENTATIVE BUDGET

	FY 2010-11 TENTATIVE BUDGET
BEGINNING FUND BALANCE	$ 23,326,878
REVENUES	161,583,710
EXPENDITURES	163,837,990
RESERVES (ENDING BALANCE)	$ 21,072,598

PROJECTED BUDGET REDUCTIONS FOR FY 2010-11 TENTATIVE BUDGET

The FY 2009-10 budget reductions are projected with the information available as of April 14, 2010 and will be revised for the Adoption Budget based on May Revise and on the State of California FY 2010-11 Budget Act. The District is projecting reductions in the amount of $8.7M for FY 2010-11 based on a reduction in revenue and increased costs as noted in the assumptions. The $8.7M, on top of the FY 2009-10 reduction of $7.9M will total $16.6M in reductions over a two-year period.

	FY 2010-11 Reductions - Backfill from Reserves and Corrections	Additional Budget Reductions for FY 2010-11	Total Projected Budget Reductions for FY 2010-11
CCC	$ (873,922)	$ (1,178,141)	$ (2,052,063)
DVC	$ (2,002,594)	$ (818,152)	$ (2,820,746)
LMC	$ (1,070,114)	$ (1,429,257)	$ (2,499,371)
DO	$ (220,257)	$ (353,802)	$ (574,059)
DW	$ (747,535)	$ (41,320)	$ (788,855)
Regulatory		$ -	$ -
Utilities		$ -	$ -
International Ed		$ -	$ -
Total	$ (4,914,422)	$ (3,820,672)	$ (8,735,094)

CONSIDERATIONS FOR FUNDING IN FY 2010-11

Other considerations for funding in developing the FY 2010-11 budget are:

- New Allocation Model base allocation and per FTES allocation to colleges.
- Governing Board Goals and Objectives
- Board Goals and Objectives for 2010-11.
- Strategic Directions, Goals and Objectives for 2009-14
- Districtwide sustainability projects developed by the District committee

POTENTIAL FUNDING SOURCES

OTHER POTENTIAL FUNDING SOURCES FOR THE DISTRICT INCLUDE:

- Federal funds projected to provide workforce training and facility expansion
- State and federal grants focused at providing student support services and workforce training
- Continued partnerships with business, state/local agencies, and other institutions of higher education

CONCLUSION

As the State budget crisis continues to play out, the District is making tough decisions based on declining or flat revenues and increasing costs of benefits and fixed payroll costs. District reserves will not prevent difficult decisions from being made. The District has spent down $4.9M in FY 2009-10 as it attempts to serve more students and soften the reductions. However, the District will take time to make prudent decisions with a long-term perspective and it will continue to provide students with a quality educational experience.

WHAT WE DO NEXT

The District will continue to work with others on the restoration of the proposed state reductions. There is much speculation between now and the May revision As it gathers more information about the State budget, the District projects a conservative FY 2010-11 budget

LONG TERM FINANCIAL PLANNING

The District has several challenges and opportunities in addressing long term financial planning. For the past 20 months the District has been undergoing a major clean up of accounting and payroll practices, as well as developing an allocation model that ties expenditures to the revenues. As these projects conclude, the District is poised to start addressing longer term financial planning. The following are the most significant challenges and opportunities for the District:

CHALLENGES

- Increasing health and welfare benefits
- Maintaining competitive salaries and benefits to retain and attract excellent employees
- Long term liabilities
  - Retiree Health Benefits –
    - $262M liability
    - Increasing annual costs
      - Projected at $9.4M in FY 2010-11
      - Projected to grow to $25M in the next 15 years
  - Compensated Absences
    - Load banking
      - Accrued liability in 2002-2003 - $3.3M
      - Accrued liability in 2008-2009 - $9.1M
    - Vacation accrual
      - Accrued liability in 2002-2003 - $3.9M
      - Accrued liability in 2008-2009 - $5M
    - In 2002-03 there were $5.5M in reserves to cover these liabilities (76% funded)
    - In 2008-09 there were is $2.7M reserves to cover these liabilities (19% funded)

OPPORTUNITIES

- Brentwood Center for Los Medanos College
  - Acquisition of property financed through Measure A+
  - Submitting an Initial Project Proposal to State for funding
  - Will be prepared for any federal funding opportunities
- Armory acquisition for Contra Costa College
  - Pursing acquisition
  - Will require funding other than general obligation bond
    - Possible Redevelopment Agency financing

NEW ALLOCATION MODEL

For many years, the District has used a funding mechanism that has not met its needs. The funding mechanism has no linkage between revenues and expenditures, and expenditures can no longer be supported by the revenues.

In the most recent self-study reports written by the colleges, the District self-identified the allocation funding model as needing modification. The accreditation teams supported the District's acknowledgment and recommended the District expedite development of a new allocation model as a "whole." In the old model,

- Budget allocations were not aligned with revenues;
- there were at least five different formulas for distributing funds
- there were more than a dozen exceptions, provisions and adjustments; and
- accountability and decision-making were primarily at the District Office.

The SB 361 allocation model was chosen as the best alternative for allocating revenues, because the SB 361 funding model allocates resources to the colleges in the same manner as received by the District. The methodology allocates all of the resources to the colleges as earned with assessment to each college's resource allocation for District Office, Districtwide services and regulatory costs. The model does provide an opportunity for more resource allocation decisions to be made at the local college level with the intent of improving decision quality and timeliness. Authority will be commensurate with responsibility for the successful operation of the college.

The allocation model is based upon the principles inherent in the state funding formula prescribed by SB 361. These are the current funding rates.

- Each college shall receive an annual basic allocation per SB 361 as follows: (adjusted for COLA if funded by the state)

  - FTES <10,000 = $3,321,545
  - FTES >10,000 = $3,875,136
  - FTES >20,000 = $4,428,727
  - Approved Centers = $1,107,182

- Credit Base Revenue shall be equal to the funded based credit FTES multiplied by the base rate of $4,564.83 in the 2010-11 fiscal year subject to COLA adjustment if funded by the state.

- Non-Credit Base Revenue shall be equal to the funded base non-credit FTES multiplied by the base rate of $2,744.9578 in the 2010-11 fiscal year subject to COLA adjustment if funded by the state.

- The Career Development and College Preparation (CDCP) non-credit base revenue shall be equal to the funded base CDCP non-credit FTES multiplied by the base rate of $3,232.0676 in the 2010-11 fiscal year subject to COLA adjustment if funded by the state.

The base revenues for each college shall be the sum of the annual basic annual allocation, credit base revenue, non-credit base revenue, and CDCP non-credit base revenue.

Locally generated revenues will remain with the colleges and a system of assessments has been established to fund centralized services, which include District office, Districtwide services, and regulatory costs. The model also establishes accountability for spending and allows colleges to retain ending balances within established limits.

A five-year transition plan has been designed to allow for the colleges and District Office to move into the model. The first year of the transition includes a 182 FTES shift from DVC to CCC to provide a larger revenue base to assist the college. DVC will also receive a $1.7M increase in revenues. Based on the current assumptions for growth and COLA, CCC will reduce expenditures $1.7M over a four-year period, beginning in 2011-12, and LMC will reduce expenditures by $462,423 over a two year period beginning in 2011-12.

The District will continue to ensure compliance with state and federal requirements, lead negotiations, and provide overall direction. The model will be reviewed at the end of the first year to determine its effectiveness.

FIFTY PERCENT LAW

The Fifty Percent Law dates back to 1959 when it first appeared in the Education Code The implied legislative intent behind the language at the time as noted by the California Community College League (CCLC) was to “decrease class size in California schools” (CCLC, 2002, p. 2). Education Code Section 84362, which is known as the Fifty Percent Law, requires each community college to spend at least half of its “current expense of education” (CEE) each fiscal year for the salaries and associated benefits of classroom instructors.

The current expense of education includes the unrestricted general fund expenditures of a community college district. Expenditures such as student transportation, food services, community services, lease agreements for facilities and equipment, and lottery expenditures (except for faculty salaries) as specified in Education Code Section 84362 are excluded from the calculation.

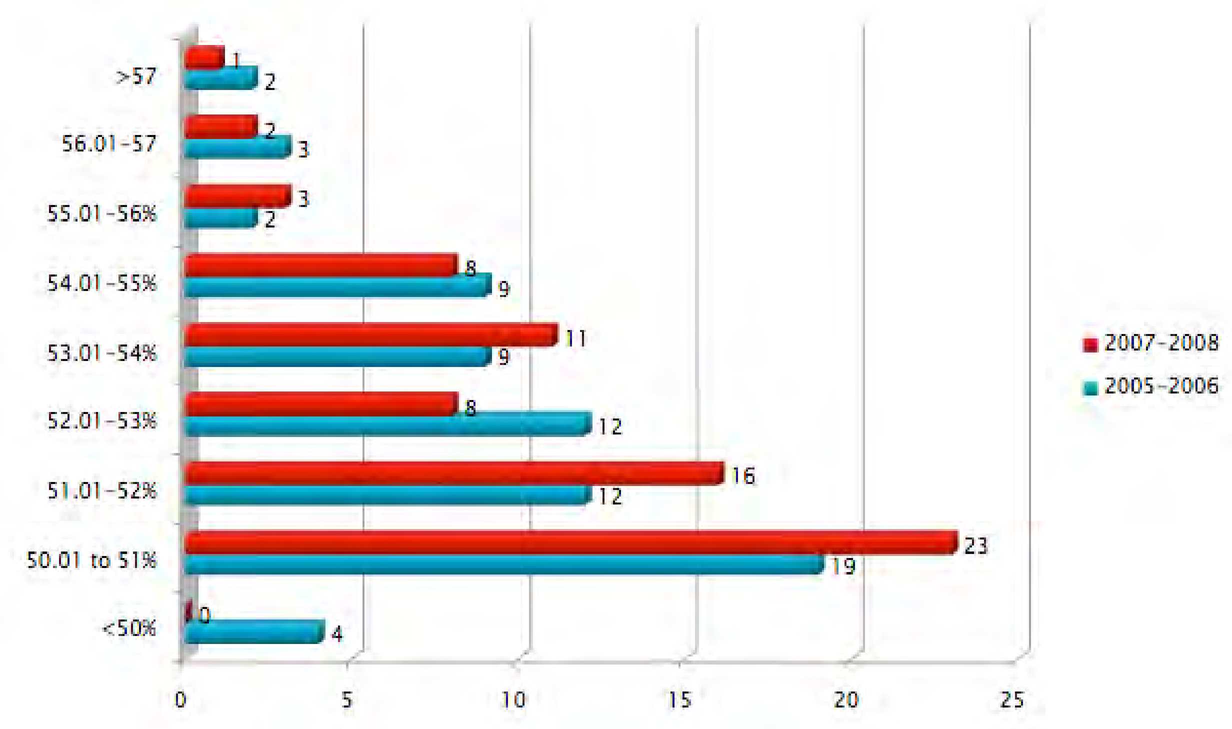
California Code of Regulations (CCR) Title 5 Section 59204 defines “Salaries of Classroom Instructors” as (1)“That portion of salaries paid for purposes of instruction of students by full-time and part-time instructors employed by a district; and (2) all salaries paid to classified district employees who are (a) assigned the basic title of “Instructional Aide” or other appropriate title designated by the governing board that denotes that the employees’ duties include instructional tasks, and (b) employed to assist instructors in the performance of their duties, in supervision of students, and in the performance of instructional tasks.”

The Fifty Percent Law is expenditure-based and is calculated after the budget closes for all expenditures in the unrestricted general fund. The law specifies a range of object codes and activity codes (Taxonomy of Programs and Services) as noted in the Budget and Accounting Manual (BAM). It was the intent of the legislature that districts will properly account and report the Fifty Percent Law.

The District will be conducting detailed training on the Fifty Percent Law during the next six months at the colleges and the District office. During these difficult budget times, with the absorption of some categorical programs into the general fund, the District must monitor this compliance issue carefully.

The following chart shows the community colleges’ percentage meeting the 50% Law comparing 2005-06 to 2007-08. (These charts were developed by Coast Community College District.)

The Fifty Percent Law
District and Percentage Trends in State of California



In the simplest terms, the 50% Law is calculated by dividing instructional salaries and benefits by total costs. This can be displayed as:

$$\frac{\text{Instructional Salaries and Benefits}}{\text{Total Costs}}$$

Counts Toward 50% Target	Does Not Count	Outside the 50% Calculation
Salary and Benefit Costs of:	**Salary and Benefit Costs of:**	Costs funded by categorical programs
Classroom faculty	Counselors (faculty)	Building and equipment leases
Instructional aides	Librarians (faculty)	New equipment
	Faculty coordinators (such as nursing)	Community education
	Faculty directors (such as EOPS)	Ancillary programs
	Release time for department chairs	Costs funded by Lottery funds
	Non-faculty in deparments	Student Transportation
	Deans and other administrators	Student Health Services
	Board of Trustees	
	Admissions and records staff	
	Business services staff	
	Campus safety staff	
	Facilites and maintenance staff	
	Human resources staff	
	Computer technical support staff	
	Operating Costs:	
	Utilites	
	Insurance	
	Legal	
	Audit Fees	
	Travel and conference expenses	
	Materials and supplies	
	Replacement equipment	

RECOMMENDATIONS/DIRECTION FROM THE GOVERNING BOARD

In moving the District forward to long-term fiscal stability, staff is recommending to the Governing Board the following:

New Allocation Model

Continue implementation of the new allocation model to tie expenditures to revenues and increase fiscal accountability. The FY 2010-11 Tentative Budget is projected using the New Allocation Model. The implementation of the model will require an investment on the part of the District:

FY 2010-11 - $2.2M– source of funds undesignated reserves and interest funding
- Subsidize LMC - $462,423
- Subsidize CCC - $1.7M

FY 2011-12 - $1.5M – source of funds - reserves, interest revenues, retiree health benefit offset (if necessary)
- Subsidize LMC - $232,212
- Subsidize CCC - $1.3M

FY 2012-13 - $894,929M – source of funds, interest revenues, reserves
- Subsidize CCC - $894,929

FY 2013-14 - $447,465 – source of funds – interest revenues
- Subsidize CCC - $447,465

FY 2014-15 - $0

The total cost of the implementation is $5.1M based on current conditions projecting no COLA or growth funding. If growth or COLA occur, the impact could lessen.

Retiree Health Benefits

Recommendation 1: Continue funding the retiree health benefits at the rate of $1M per year. Also, for FY 2009-10 and FY 2010-11, transfer funds from the Retiree Health Benefit fund to the irrevocable trust in the amount that is the difference between the Annual Required Contribution (ARC) and the pay as you go amount. The amount for FY 2008-09 was $9.1M and it should be similar for FY 2009-10. The Retirement Board of Authority also recommended the District contribute the funding on a quarterly basis rather than one time per year.

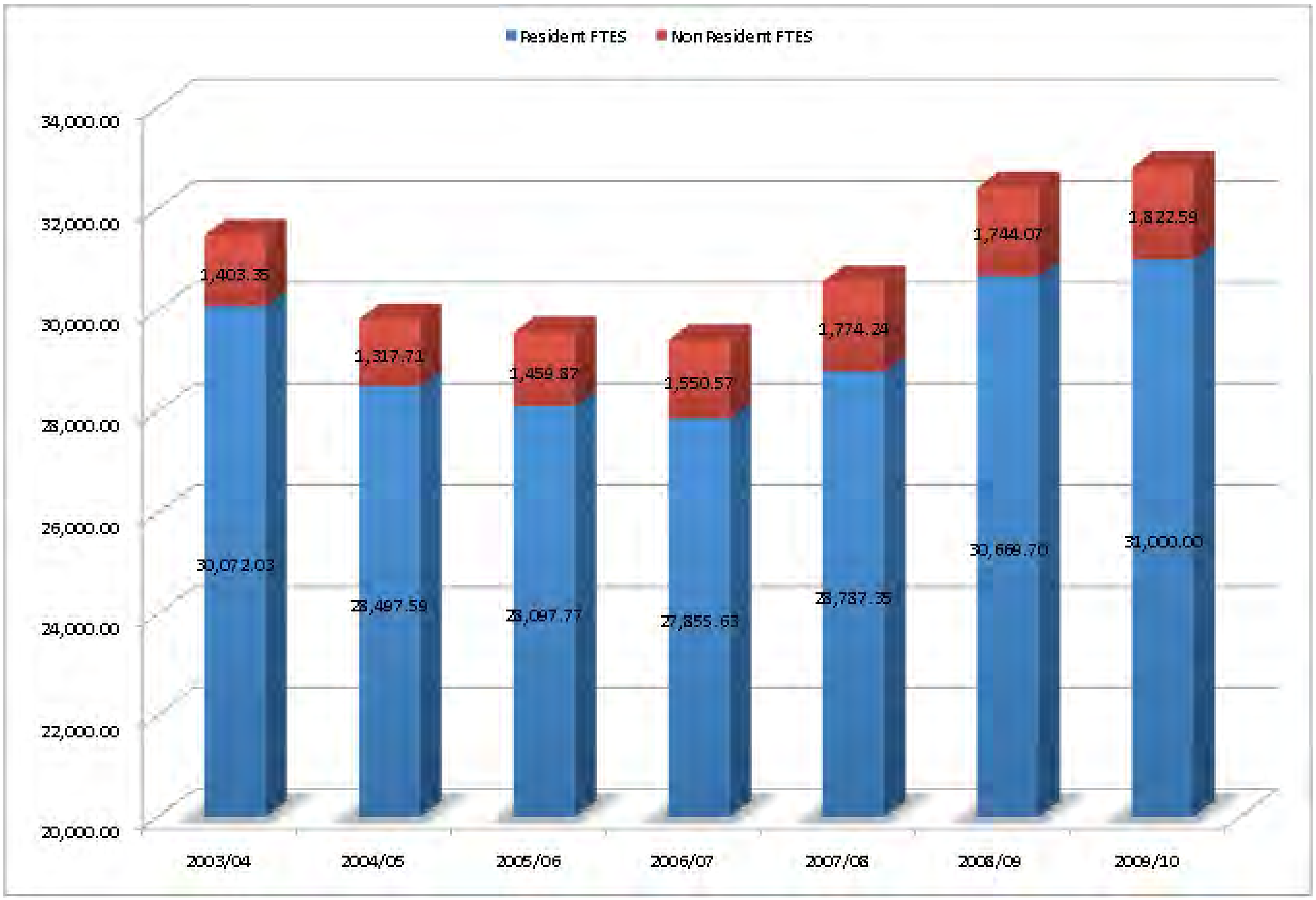
Recommendation 2: When the bond market conditions are right, the District shall explore an Other Post Employment Benefit bond to help offset some of the increased costs of the Retiree Health Benefits. The pay as you go annual costs are going to continue to increase and put a financial strain on the District if other options are not pursued.

Compensated Absences

Starting July 1, 2010 properly expense banked load on a semester basis, conduct an actuarial study to determine appropriate level of funding for the fund to ensure the District can meet its annual obligations, and develop a plan to restore reserves to the fund as calculated through the actuarial study.

APPENDIX

FTES RESIDENT AND NON-RESIDENT
HISTORY AND FY 2009-10 PROJECTION



SALARY SCHEDULE AND DISTRICT BENEFITS PREMIUM HISTORY

(effective July 1 unless noted)

	Salary Schedule Changes					Benefits Premium Changes	
Fiscal Year	Faculty	Classified	Confidentials	Managers/ Supervisors	Chancellor's Cabinet	Medical Plans - Actuals	Dental Plans - Actuals
83-84	0.0%	0.0%	0.0%	0.0%	0.0%		
84-85 eff. 7-1-84 eff. 7-1-85	 8.4% 4.0%	 10.4%	 8.4% 4.0%	 8.4% 4.0%	 8.4% 4.0%		
85-86	6.2% (87.1% of work year)	5.4%	5.4%	5.4%	5.4%		
86-87	5.0%	5.4%	5.0%	5.0%	5.0%		
87-88	4.0%	4.0%	4.0%	4.0%	4.0%		
88-89	4.7%	4.7%	4.7%	4.6/7%	4.6/7%		
89-90	7.0%	7.0%	7.0%	7.0%	7.0%		
90-91	6.5%	6.5%	6.5%	6.5%	6.5%		
91-92	3.0%	3.0%	3.0%	3.0%	3.0%		
92-93	0.0%	0.0%	0.0%	0.0%	0.0%		
93-94	2.0%	2.0%	2.0%	2.0%	2.0%	5.53%	2.66%
94-95	2.0%	2.0%	2.0%	2.0%	2.0%	-0.03%	5.82%
95-96	4.0%	4.0%	4.0%	4.0%	4.0%	-6.95%	0.80%
96-97	4.0%	4.0%	4.0%	4.0%	4.0%	0.61%	4.17%
97-98	2.97%	2.97%	2.97%	2.97%	2.97%	14.18%	8.13%
98-99	2.26%	2.26%	2.26%	2.26%	2.26%	11.39%	6.50%
99-00	1.41%	1.41%	1.41%	1.41%	1.41%	11.90%	5.25%
00-01[4]	6% + 1%	6% + 1%	6% + 1%	6% + 1%	6% + 1%	14.72%	15.45%
01-02	4.25%	4.25%	4.25%	4.25%	4.25%	12.20%	6.97%
02-03[6]	6.2%	6.2%	6.2%	6.2%	6.2%	24.03%	-1.42%
03-04 [1][5][7]	0.0%	0.0%	0.0%	0.0%	-2.0%	9.46%	-8.51%
04-05[2][3]	-6.9% eff 4/1/05	0.00%	-7.00%	-7.00%	-7.00%	18.37%	6.17%
05-06[3]	-6.90%	-3.38% eff 8/1/05	-5.25%	-5.25%	-5.25%	8.34%	9.50%
06-07	5.54%[8]	3.5%[8]	5.54%[8]	5.54%[8]	5.54%[8]	4.58%	3.40%
07-08	7.00%	7.00%	7.00%	7.00%	Contract	17.51%	0.00%
08-09	3.57%	3.57%	3.57%	3.57%	Contract	8.09%*	3.84%*
09-10	0.00%	0.00%	0.00%	0.00%	Contract	6.40%	not available

* Projected

[1] Chancellor's Cabinet -2% FY 03-04 only

[2] Classified 7% furlough. Conf, Mgr/Sup, Cabinet -7% FY 04-05 only

[3] Faculty 3.38% for FY 04-05 and 5.25% for FY 05-06 administered as 6.9% 4/1/05 - 6/30/06

[4] Medical copay $0 to $5

[5] Medical copay $5 to $15

[6] Dental plan switch to ACSIG Insured

[7] Dental plan switch to ACSIG Self-insured

[8] Restoration of 03-04 Salary Schedule

Six Year Actual History and FY 2009-10 Adoption Budget
With Banked Load Properly Expensed

Budget History	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09	Fy 09-10
	Actual	Actual	Actual	Actual	Actual	Actual	Adoption
5% General Fund Reserve						$ 8,104,198	8,268,370
5% Board Contingency						$ 4,502,099	8,268,370
DO/Colleges						$ 4,502,099	5,548,120
Undesignated Reserve						$ 1,342,925	1,535,891
Adjusted Beginning Balance	**$ 8,109,824**	**$ 9,504,404**	**$ 8,812,909**	**$ 10,476,306**	**$ 18,322,809**	**$ 22,250,687**	**$ 23,620,751**
Revenues							
Federal	$ 56,275	$ 36,925	$ 21,540	$ 18,880	$ 22,601	$ 28,465	$ 28,000
State	$ 47,619,220	$ 56,958,779	$ 52,415,906	$ 71,734,071	$ 73,842,925	$ 74,646,927	$ 69,402,462
Local	$ 90,306,970	$ 83,851,146	$ 88,179,845	$ 93,575,167	$ 94,670,227	$ 97,236,445	$ 92,302,411
Other	$ 2,348,479	$ 1,025,568	$ 1,131,636	$ 1,284,425	$ 18,436	$ 455,976	$ -
Total Revenues	**$ 140,330,944**	**$ 141,872,418**	**$ 141,748,927**	**$ 166,612,543**	**$ 168,554,189**	**$ 172,367,813**	**$ 161,732,873**
Expenditures							
Academic Salaries	$ 65,604,769	$ 63,594,788	$ 60,310,632	$ 67,452,668	$ 73,493,170	$ 75,282,816	$ 75,601,020
Classified Salaries	$ 29,291,579	$ 26,877,989	$ 26,691,809	$ 28,838,462	$ 31,901,459	$ 34,352,520	$ 37,115,581
Benefits	$ 26,121,204	$ 29,991,276	$ 29,870,252	$ 32,344,585	$ 33,337,826	$ 35,749,497	$ 38,575,577
Supplies and Material	$ 2,963,359	$ 2,897,140	$ 3,150,548	$ 3,466,914	$ 2,833,052	$ 3,309,069	$ 3,620,433
Other Operating Expenses	$ 13,205,223	$ 14,469,894	$ 15,434,800	$ 15,548,426	$ 15,799,153	$ 16,674,331	$ 7,631,130
Capital Outlay	$ 734,171	$ 827,159	$ 973,418	$ 1,384,415	$ 2,022,460	$ 2,412,700	$ 1,677,939
Other Outgo	$ 407,621	$ 1,165,141	$ 1,919,219	$ 17,460,080	$ 2,345,379	$ 2,578,105	$ 1,156,898
One time expenditures							
Total Expenditures	**$ 138,327,926**	**$ 139,823,387**	**$ 138,350,678**	**$ 166,495,550**	**$ 161,732,499**	**$ 170,359,038**	**$ 165,378,578**
Excess (Deficiency)	**$ 2,003,018**	**$ 2,049,031**	**$ 3,398,249**	**$ 116,993**	**$ 6,821,690**	**$ 2,008,775**	**$ (3,645,705)**
Prior Year Adjustment	$ (239,094)	$ (1,231,156)	$ 82,122	$ 8,019,022	$ (1,693,178)	$ (15,247)	
5% Board Reserves						$ 8,517,951.90	8,440,003
5% Board Contingency							8,440,003
Designated for Encumbrance							-
Designated for One time projects per Adoption Budget							3,039,922
Undesignated Reserves							55,118
Ending Balance June 30	**$ 9,873,748**	**$ 10,322,279**	**$ 12,293,280**	**$ 18,612,321**	**$ 23,451,321**	**$ 24,244,215**	**$ 19,975,046**
Liability Increases	**$ (369,344)**	**$ (1,509,370)**	**$ (1,816,974)**	**$ (289,512)**	**$ (1,200,634)**	**$ (623,464)**	**$ (968,216)**
True Ending Balance	**$ 9,504,404**	**$ 8,812,909**	**$ 10,476,306**	**$ 18,322,809**	**$ 22,250,687**	**$ 23,620,751**	**$ 19,006,830**
Ending Balance No Without Expensing	**$ 9,873,748**	**$ 10,691,623**	**$ 14,171,994**	**$ 22,308,009**	**$ 27,436,521**	**$ 29,430,049**	**$ 25,784,344**
Differense	**$ 369,344**	**$ 1,878,714**	**$ 3,695,688**	**$ 3,985,200**	**$ 5,185,834**	**$ 5,809,298**	**$ 6,777,514**
Percentage Ending Balance	7.14%	7.65%	10.24%	13.40%	16.96%	17.28%	15.59%
Revised ending blalanace	6.9%	6.3%	7.6%	11.0%	13.8%	13.9%	11.5%
Percent Fixed Payroll	87.5%	86.2%	84.5%	77.3%	85.8%	85.3%	91.5%
Estimated on average of 6 years	$ (968,216)						