STUDY SESSION ON THE 2013-14 DISTRICT BUDGET

APRIL 24, 2013

Contra Costa Community College District
500 Court Street
Martinez, California 94553

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1. INTRODUCTION

This presentation is prepared, except where noted, in adherence to the policies and procedures set forth for budget development. 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.

Board Policy 5033, Budget Development, establishes the process for the development of the District budget. It requires that the budget be prepared in accordance with Title 5 and the California Community Colleges Budget and Accounting Manual. In addition, it ensures that the presentation and review of budget proposals comply with state law and regulations and provide adequate time for Board study. The policy delineates the budget development criteria and values.

1.1 Criteria

- The annual budget shall support the District's strategic master plan and the colleges' educational and facilities master plans.
- Assumptions, upon which the budget is based, are presented to the Board for review.
- A schedule is provided to the Board at the November Board meeting each year (this did not occur in November 2012) that includes dates for presentation of the tentative budget, required public hearing(s), Board study session(s), and approval of the adopted budget. At the public hearings, interested persons may appear and address the Board regarding the proposed budget or any item in the proposed budget.
- Unrestricted general reserves shall be no less than 5% to address significant opportunities that present themselves throughout the year.
- Changes in the assumptions upon which the budget was based shall be reported to the Board in a timely manner.
- Budget projections address long-term goals and commitments.

1.2 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 will be upheld by ensuring:

- discussions and all actions are student-centered;
- communication of financial information is practiced 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.

1.3 Business Procedure 18.02, Parameters for Budget Development and Preparation

This procedure requires that, to the extent possible, the budget will:

- allow the resources sufficient for meeting the needs of the diverse student population of the District;
- be developed based on achievable full-time equivalent student (FTES) goals that provide for the highest possible level of student access;
- maintain a minimum emergency fund balance reserve of 5% of the unrestricted general fund budgeted expenditures for the fiscal year: an additional 5% contingency Board reserve will also be maintained;

- 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;
- provide for contractual obligations and fixed costs (excluding sabbaticals and classified employee enhancement program);
- cover the current year retiree health benefit expenses and increase restricted reserves for the retiree health benefit liability;
- include funding for new Districtwide projects based on District goals;
- adhere to formulae stipulated in business procedures;
- budget and restrict college year-end carryover balances for one-time expenditures only;
- maintain and improve our colleges in a manner that attracts students and provides an environment that promotes education, including providing matching funds;
- include total compensation for all employees which will be in the top one-third of the Bay 10, excluding basic aid districts, only if the District can afford it;
- reflect improvement in productivity at all levels; and
- be developed within a multi-year plan.

2. CONTRA COSTA COMMUNITY COLLEGE DISTRICT
2011-15 STRATEGIC GOALS AND OBJECTIVES

GOALS	OBJECTIVES
GOAL 1 **STUDENT LEARNING AND SUCCESS: Significantly improve the success of our diverse student body in pursuit of their educational and career goals with special emphasis on closing the student achievement gap.**	1.1 Increase the percentage of students who transfer to a variety of four-year institutions while narrowing the transfer gap across subgroups. 1.2 Increase the percentage of students who receive relevant and timely training for the workplace while narrowing the achievement gap across subgroups. 1.3 Increase the number of degrees by 50% (from 1,496 to 2,244) and the number of certificates by 100% (from 992 to 1,984) by 2015 1.4 Increase the percentage of Limited English Proficient (LEP) students who become proficient in the English language. 1.5 Increase the percentage of students who are proficient in Basic Skills while narrowing the proficiency gap across subgroups. 1.6 Improve the assessment and student achievement of learning outcomes
GOAL 2 **COLLEGE AWARENESS AND ACCESS: Increase awareness of and equitable access to Contra Costa Community College District for a changing and diverse population.**	2.1 Increase awareness of our Colleges as a source for higher education, and career preparation options for our diverse community. 2.2 Improve the participation and success rate gaps of racially and ethnically underrepresented students and of economically disadvantaged students.
GOAL 3 **PARTNERSHIPS FOR WORKFORCE AND ECONOMIC DEVELOPMENT: Support economic and workforce development through education and leadership in collaboration with government, community organizations, business, and industry.**	3.1 In collaboration with external partners, develop new and/or revised career pathways leading to improved opportunities for students to successfully enter the workplace. 3.2 Leverage current grants, and identify and acquire additional resources, from state, federal and private sources, to support effective workforce preparation. 3.3 Increase collaborative initiatives with educational partners from preschool through four-year institutions, business and industry, government, and community organizations to increase economic vitality and supply well-qualified workers for current and emerging industries in Contra Costa County.
GOAL 4 **ORGANIZATIONAL EFFECTIVENESS: Improve the effectiveness of Districtwide planning, operations, resource allocation, and decision-making.**	4.1 Prioritize who we plan to serve while balancing the need to maintain access for those most in need of our services. 4.2 Reduce or eliminate programs and services which are not viable. 4.3 Hire and retain employees who are sensitive to and knowledgeable of the needs of our continually changing student body. 4.4 Implement, align, evaluate, and improve strategic planning processes within the District on an ongoing basis. 4.5 Continue the creation and implementation of professional development programs to prepare employees for internal promotional opportunities and also enhance their knowledge, skills, and abilities. 4.6 Increase operational and administrative efficiency to deliver educational services utilizing the most cost effective methods.
GOAL 5 **RESOURCE MANAGEMENT: Provide sound stewardship of the District's physical and fiscal assets to ensure a sustainable economic future consistent with our values, vision, and mission.**	5.1 Manage enrollment to achieve productivity goals.. 5.2 Align District expenditures to available revenue while striving to provide high quality programs and services. 5.3 Diversify funding sources to increase the level of discretionary control over resources and increase the total funding received by the Colleges. 5.4 Allocate resources according to planning priorities. 5.5 Develop practices and procedures that promote sustainability in all areas of the District, including but not limited to, instruction, operations, construction, facilities, land use, energy, water conservation, and environmental integrity. 5.6 Continue to maintain financial integrity, fiscal prudence and stability for the District as a whole.

3. CONTRA COSTA COMMUNITY COLLEGE DISTRICT GOVERNING BOARD 2012-13 BOARD OBJECTIVES

District Strategic Direction – Goal 1: Student Learning and Success
Significantly improve the success of our diverse student body in pursuit of their educational and career goals with special emphasis on closing the student achievement gap.

1.1 Ensure policies are in place to support student learning and success.
1.2 Become acquainted with level of preparation of high school students.
1.3 Ensure appropriate funds are targeted for at-risk students as financial resources decline.
1.4 Track progress in closing the achievement gap.

District Strategic Direction – Goal 2: College Awareness and Access
Increase awareness of and equitable access to Contra Costa Community College District for a changing and diverse population.

2.1 Advocate for and support a positive image for the District colleges.

District Strategic Direction – Goal 3: Partnerships for Workforce and Economic Development
Support partnerships for workforce and economic development through education and leadership in collaboration with government, community organizations, business, and industry.

3.1 Monitor college and District participation in workforce and economic development activities.
3.2 Participate in community activities that connect Board members with business, government, and community leaders.
3.3 Monitor the extent to which the colleges and the District work with business and industry to provide trained and qualified workers.

District Strategic Direction – Goal 4: Organizational Effectiveness
Improve the effectiveness of Districtwide planning, operations, resource allocation, and decision-making.

4.1 Engage in individual trustee and Board development.
4.2 Strengthen Board knowledge of the District's decision-making and other organizational processes.
4.3 Monitor human resources issues that have an impact on workforce diversity.
4.4 Monitor business practices to ensure that local businesses/vendors used by the District are diverse and have an opportunity to compete.
4.5 Participate in community activities that have a financial impact on the District.

District Strategic Direction – Goal 5: Resource Management
Provide sound stewardship of the District's physical and fiscal assets to ensure a sustainable economic future consistent with our values, vision, and mission.

5.1 Adopt policies/procedures and participate in activities that will ensure a sustainable economic future for the District.
5.2 Stay abreast of how the District's financial resources are used.

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4. BUDGET DEVELOPMENT CALENDAR - FY 2013-14

The following is a listing of the actions to be undertaken in the development of the budget for FY 2013-14. 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, Budget Development.

November

- Districtwide educational planning meeting
- College Business Directors, Chancellor's Advisory Team (CAT), Cabinet, District Governing Council (DGC), and Governing Board review tentative budget assumptions

December

- DGC presented long-form budget development calendar
- Cabinet reviews and discusses state revenue collections and FTES targets

January/February/March

- Governor's Budget is released setting the preliminary revenue targets
- Cabinet reviews state revenue collections, apportionment reports and enrollment data
- Cabinet reaches agreement on FTES targets for the tentative budget
- First Principal Apportionment issued by the State System Office
- District develops preliminary revenue projections based on FTES targets per First Period Attendance Report and First Principal Apportionment Report
- District provides colleges with estimated revenue projections and personnel costs
- Tentative budget assumptions updated and reviewed with college Business Directors, CAT, Cabinet and DGC

April/May/June

- Budget Forums at all District locations
- Chancellor's Cabinet reviews FTES projections and revises as necessary all growth targets
- Board study session on Budget
- Colleges, District and Districtwide Services provide expenditures to the District to start development of Tentative Budget
- Chancellor's Cabinet and DGC reviews Tentative Budget
- Tentative Budget is submitted to Governing Board for approval
- All locations develop preliminary operational Adoption Budgets

July

- Adoption budget assumptions updated and reviewed with College Business Directors, CAT, Cabinet and DGC
- District finalizes Adoption Budget assumptions

August

- Colleges, District and Districtwide Services provide expenditures to the District to start development of Adoption Budget
- Calculations completed for the prior year to determine fund balances and carryover funds
- District compiles the Final Adoption Budget
- Final Adoption Budget assumptions reviewed with college Business Directors, CAT, Cabinet and DGC

September

- Newspaper publications notified of the availability of the Adoption Budget and Appropriations Limit
- Adoption Budget and Appropriations Limit available for public inspection
- Governing Board conducts a public hearing for the Adoption Budget and considers approval of the budget presented (Gann Limit)

October

- The finalized Adoption Budget is filed with the County Superintendent of Schools (Office of Education) and with the California Community Colleges State Chancellor's Office
- Annual Financial and Budget Report (CCFS 311) is filed with the State System Office

Throughout the year

- The Governing Board approves budget transfers and budget adjustments per Board policy

5. STATUS OF FISCAL YEAR 2012–13

In September 2012, the Governing Board adopted the FY 2012-13 budget. Amid uncertainty in its level of funding, the District pursued a "middle-of-the-road" or "hedge" strategy in its budget to account for the as yet unknown success or failure of Proposition 30. This resulted in a resident FTES target suspended between two disparate funding levels. Due to the size of the funding at stake for the District ($7 million difference between the success or failure of Proposition 30), the Governing Board adopted the hedge strategy and also allotted 2% of its 10% reserve to act as a cushion should the proposition fail.

Proposition 30 was approved by the voters of California by a wide margin (55% to 45%), signaling an end to continued cuts in education and providing the community college system much needed stability. The passage of Proposition 30 maintained the District's FY 2011-12 base funding and removed the threat of future reductions while providing a new, temporary revenue source to act as a bridge until the state and national economy improved.

The strategy the District employed in its FY 2012-13 budget necessitated significant adjustments after the passage of Proposition 30. These budget adjustments were presented to the Governing Board at its regular February 2013 meeting. Detailed below are those adjustments, along with other notable changes.

5.1 Changes in FY 2012-13 Revenue

The District built its FY 2012-13 Adopted Budget on a resident FTES target of 27,200. After the approval of Proposition 30, the resident FTES target was amended to 27,962. The difference of 762 FTES allowed revenue of $3.3 million to be distributed among the sites consistent with the District's revenue allocation model. The change in FTES targets and the associated dollars are itemized in Table 1.

	2011-12 Adopted Budget	Proposition 30 Passes	Increase
CCC Funded Resident FTES	5,466	5,619	153
CCC Dollar Allocation from Model	$24,417,285	$25,016,714	$599,429
DVC Funded Resident FTES	14,341	14,743	402
DVC Dollar Allocation from Model	$65,423,923	$67,010,912	$1,586,989
LMC Funded Resident FTES	7,393	7,600	207
LMC Dollar Allocation from Model	$31,649,851	$32,459,215	$809,364
DO Dollar Allocation from Model	$13,844,473	$14,195,623	$351,150
Total District Funded Resident FTES	**27,200**	**27,962**	**762**
Total District Dollar Allocation from Model	**$135,335,533**	**$138,682,464**	**$3,346,931**

Table 1

The state's FY 2012-13 budget included $50 million in "restoration" funding for community colleges. The restoration funding is given to colleges to earn back the FTES losses sustained in their base funding since FY 2009-10. The District's share of restoration funding is approximately $870,000 or 191 FTES. The 191 FTES and the dollars attached to it are included in the column "Proposition 30 Passes" within Table 1. The District's true base funding is 27,771 FTES (27,962 less 191 in potential restoration funding). This is an important distinction that will be discussed further in the "Stability vs. Borrowing" section.

In addition to the revenue changes resulting from the passage of Proposition 30, the District received an extra $555,000 from the apportionment recalculation done by the State Chancellor's Office for FY 2011-12. This additional revenue was generated due to a deficit factor less than what was calculated by the State Chancellor's Office on the FY 2011-12 P-2 report. The deficit factor is a shortfall in property tax receipts and enrollment fee collections statewide. This shortfall is not backfilled by the state and becomes a one-time deficit that does not carry forward or affect base funding in subsequent years. The recalculation of the deficit factor done by the State Chancellor's Office confirmed the shortfall was not as large as anticipated at the P-2 report, resulting in an additional $555,000 distribution to all sites consistent with the District's revenue allocation model.

5.2 Changes in FY 2012-13 Expenditures

The District has experienced higher-than-average legal expenses this fiscal year. The original FY 2012-13 budget for legal expenses was $450,000. Halfway through the year, it became apparent that the budgeted amount would be insufficient. This resulted in an adjustment to enhance the budget to $700,000, an increase of $250,000. As legal expenses are an assessment or "off-the-top" expense within the revenue allocation model, the colleges and District Office were made aware that their operating allocations would be reduced to accommodate this increase.

5.3 FTES Shortfall

The District is experiencing difficulty in reaching its resident FTES base of 27,771 and resident FTES target of 27,962 for FY 2012-13. The shortfall can be attributed to several factors. Some of the known factors are:

- softening demand for education in our area (California unemployment rate is at 9.8%, whereas the Bay Area has an unemployment rate of 7.3%);
- an original course schedule built for 27,200 resident FTES, adjusted only after Proposition 30's outcome became known; and
- student and potential student unawareness that courses are available. Marketing efforts are underway to remedy this.

Table 2 shows the degree to which each college is short of its resident FTES base and resident FTES target.

	Base FTES	Target FTES	Projected FTES	Base Shortfall	Target Shortfall
CCC	5,581	5,619	5,225	(356)	(394)
DVC	14,642	14,743	14,482	(160)	(261)
LMC	7,548	7,600	7,417	(131)	(183)
Total	**27,771**	**27,962**	**27,124**	**(647)**	**(838)**

Table 2

The District will be unable to achieve its resident FTES base of 27,771 this fiscal year. This presents the District with two options: 1) go on stability, or 2) borrow resident FTES from Summer 2013 to reach its resident FTES target. These options will be discussed within Section 7.1.2, Stability vs. Borrowing, of this document.

5.4 Adopted Budget and Projected Reserves

The District's expenses are currently trending very close to its budget. Table 3 details the Adopted Budget reserves and the projected ending reserves for FY 2012-13. The projected ending balance for FY 2012-13 is inclusive of expected transfers for maintenance projects and long-term liabilities. In addition, the projected ending balance is based on the assumption the District goes on stability this year. The reserves shown in Table 3 represent the operating, ongoing portion of the unrestricted general fund.

	2012-13 Adopted Budget	2012-13 Projected Ending Balance
Designated College Reserves	$ 8,620,424	$2,528,288
Designated District Office Reserves	779,700	56,700
Subtotal, Designated Reserves	**$9,400,124**	**$2,584,988**
5% Contingency Reserve	7,801,333	7,801,333
5% Board Reserve	-	7,801,333
3% Board Reserve	4,680,800	-
Subtotal, Designated Reserves	**$12,482,133**	**$15,602,666**
Undesignated Districtwide Reserve	21,448	1,338,539
Undesignated College Reserves	2,954,109	9,482,868
Undesignated District Office Reserves	1,623,324	2,665,737
2% Board Authorized Use of Reserves	3,120,532	-
Subtotal, Undesignated Reserves	**$ 7,719,413**	**$ 13,487,144**
TOTAL RESERVES	**$29,601,670**	**$31,674,798**
Calls on Reserves:		
Load Bank Liability Reserve	162,730	-
Vacation Liability Reserve	176,238	-
Reserve for ISA Payback	2,998,656	1,499,328
Reserve for Failed Tax Measure	4,565,048	-
Deficit Funding Reserve	851,487	-

Table 3

5.5 Adopted and Projected Budget Status

Table 4 shows the difference between the FY 2012-13 adopted budget and the projected actuals at year-end for the operating, ongoing portion of the unrestricted general fund.

	FY 2012-13 Adopted Budget	FY 2012-13 Projected Actuals
Revenues	$156,146,537	$160,673,266
Expenditures	157,329,968	160,918,060
Increase/(Decrease)	(1,183,431)	(244,794)
Opening Fund Balance	30,785,101	31,919,592
Ending Fund Balance	$29,601,670	$31,674,798

Table 4

6. 2013-14 Budget Discussion

6.1 Highlights

After two years of significant budget reductions combined with the passage of Proposition 30, the state is now projecting a balanced budget for FY 2013-14. Two years ago, when a $25 billion state deficit existed, a balanced budget seemed unthinkable. The Governor's FY 2013-14 budget proposes General Fund spending at $97.7 billion, still below the FY 2007-08 peak of $103 billion. Of importance to the District, the Governor's proposed budget provides increased funding for all levels of education. The Governor's proposed budget includes the following for higher education.

- **The community college system will receive a $196.7 million allocation in increased apportionment funding, of which the District could receive approximately $3.5 million.**
- UC and CSU will each receive a $125 million allocation in general fund increases.
- Deferral buy-down; $179 million is to be dedicated towards lowering the community college system deferral amount from its current $801 million to $622 million, which would reduce the District's deferrals from $22 million to $17 million in FY 2013-14.
- No proposed increase in funding for categorical programs, although a portion of the $196.7 million could be used to restore these programs.
- $49.5 million to support energy efficiency efforts due to the passage of Proposition 39.
- $300 million to shift responsibility of Adult Education from K-12 to community colleges.

Policy Proposals

The Governor's proposed budget also includes several policy matters that, if enacted, would affect the District. These policy proposals include the following:

- a five-year phase-in to change base apportionment funding on student completion data rather than census date enrollment;
- a 90-unit cap above which no state support will be provided for students; and
- Board of Governor's Fee Waiver students must complete the federal FAFSA form and include the income of both parents to determine eligibility.

Each proposal is controversial and is being reviewed by the state legislature. The likely outcome of each should be known by the May budget revision.

6.2 Planning

The Governor's proposed budget does not specify how the $196.7 million community college system allocation in increased apportionment funding is to be treated. The funds could be treated either as a Cost of Living Adjustment (COLA), as available growth funds, or as a combination of COLA and growth.

COLA raises the dollars per FTES we receive from the state and does not require the District to serve more FTES. The community college system last received COLA in FY 2007-08. Since that time, the dollars per FTES has been stagnant at $4,565.

Growth funding provides the opportunity for the District to increase its base funding. The District must earn growth funds by serving FTES above its current base. This does not increase the dollars per FTES the District receives from the state, but does allow the District to receive funding for more FTES.

The District is currently planning for 2% growth funding to be available in FY 2013-14, and is not anticipating COLA. The District's stability status in FY 2012-13 would not affect its ability to earn growth funds in FY 2013-14. Each site is currently developing course schedules to accommodate the 2% anticipated growth funding. However, Contra Costa College will not be attempting to grow above its current base funding. Due to the significant shortfall in FTES it is experiencing in FY 2012-13, Contra Costa College has opted to maintain its base and shift its growth funding to DVC and LMC. This results in DVC and LMC having growth targets of 2.5% each. Table 5 shows the FTES targets at each site under these assumptions.

		2% Growth over FY 12-13 Base, all to DVC and LMC		
	Current FY 2012-13 FTES Base	**FY 2013-14 FTES Target**	**Additional FTES**	**Additional Dollars**
CCC	5,581	5,581	-	-
DVC	14,642	15,008	366	1,671,018
LMC	7,548	7,737	189	861,415
District Total	**27,771**	**28,326**	**555**	**$2,532,434**

Table 5

The FTES target for FY 2013-14 is based upon the District's belief that the entirety of the $196.7 million in additional apportionment funding will not be used for growth. There is tremendous pressure on the state to restore categorical programs as well as provide a COLA. Thus, the $2.5 million in growth funds shown in Table 5 is less than the entirety of the $3.5 million the District could receive. The District is anticipating that the remainder of new funding will be used for purposes other than growth or COLA and will not come to the District within its unrestricted operating fund.

In the interim, the District will continue to monitor the latest information from the state and will revise its plans and assumptions as new information emerges, specifically from the Governor's May Revise.

6.3 Budget Assumptions for FY 2013-14

6.3.1 Revenue Assumptions

Following are the budget assumptions for revenues based on what is known at this point in the state budget process. These revenue assumptions total $3.26 million in incremental revenue.

- A 2% growth in funded resident FTES
  - *Potential impact*: Approximately $2.5 million in additional growth dollars to DVC and LMC.
- Non-resident FTES projected to increase by 225 FTES, generating approximately $1.1 million in incremental revenue for the District.
  - *Potential impact*: $1.1 million in incremental revenue to the District. Non-resident FTES are primarily generated at DVC, yet all sites benefit from the monies that are generated.
- No COLA
  - *Potential impact*: The District is not anticipating a COLA, but will update this assumption if needed.

- Lottery revenue at $122 per FTES
  - *Potential impact*: Lottery is calculated on total FTES (resident and non-resident). The District is anticipating an increase in lottery funds of $223,000 over the FY 2012-13 Adopted Budget.
- Deficit Factor of 0.4%
  - *Potential impact*: A deficit factor is caused by a statewide shortfall in property taxes and/or enrollment fees. The District is projecting a 0.4% deficit factor ($568,000). A reserve will be set aside by each site for the deficit factor according to Business Procedure 18.01, The Contra Costa Community College District Budgeting System.

6.3.2 Expenditure Assumptions

Delineated below are expenditure increases totaling $4.78 million.

- A decrease in the State Unemployment Insurance (SUI) rate from 1.1% to 0.05%
  - *Potential impact:* The improving economy and jobs market has caused this rate to go down significantly. This is a finalized rate and no longer an assumption. **The SUI rate change will save the District $1.1 million in FY 2013-14**.
- An increase in course sections to serve more students
  - *Potential Impact*: The District must increase its course schedule to reach its FY 2013-14 resident FTES target. This creates an estimated year-over-year increase of $2.6 million in salaries and benefits.
- Health and Welfare costs to increase by 7%
  - *Potential Impact*: A 7% increase in health and welfare results in $1.8 million in additional expenses to the District. This includes retiree health benefits, which now comprise 43% of the $28 million cost of health and welfare expenditures.
- Step and column salary increases at 1.2% of total salaries
  - *Potential impact:* Step and column increases are projected to cost $1.1 million and include all classes of employees.
- An additional IT maintenance agreement
  - *Potential impact*: The addition of the Desire 2 Learn e-learning platform will create an incremental expense of $300,000 for the District.
- An increase in the CalPERS rate from 11.417% to 11.55%
  - *Potential impact:* The projected rate increase creates an incremental expense of $42,000. The final rate will not be known until May 2013.
- A 2% increase in property, liability and student insurance
  - *Potential impact:* The projected rate increase creates an incremental expense of $35,000. The final rate will not be known until May or June 2013.

Other notable, non-incremental expenses include:

- The long-term disability rate will remain unchanged at 0.42%.
- Workers compensation rate will remain unchanged at 1.87%.
- CCC will receive a subsidy of $447,465 from undesignated reserves. This is the final year for the subsidy that was agreed upon during the implementation of the SB 361 revenue allocation model.
- $100,000 per college will be set aside annually for deferred maintenance, totaling $300,000.
- CCC and LMC will have the final Instructional Service Agreement payment to the state, totaling $1.5 million.
- It is projected the District will continue to experience large banked load and vacation accrual payouts. Currently, the unfunded vacation and banked load liability is $10 million.

7. BUDGET RECOMMENDATIONS FOR FY 2013-14

7.1 FTES Strategies

Strategic positioning for FTES is addressed through two avenues: 1) growth and 2) going on stability or borrowing. The strategy of 2% growth recommended by District staff for FY 2013-14 is dependent upon the District going on stability in FY 2012-13.

7.1.1 2% Growth in FY 2013-14

Growth of 2% is achievable for the District. It represents 555 FTES above the District's current funded base in FY 2012-13 (27,771 to 28,326) and will provide $2.5 million in incremental revenue that the District can earn through increasing its course offerings. The 555 FTES would be split proportionally between DVC and LMC. As noted in Section 6.2 of this document, CCC is foregoing its 2% of growth funds for FY 2013-14.

Table 6 shows the resident FTES targets reflective of the 2% District growth.

FY 2013-14 Resident FTES Targets by Location

	CCC	DVC	LMC	Totals
Target	5,581	15,008	7,737	28,326
% of total	19.7%	53.0%	27.3%	100.0%

Table 6

7.1.1.1 Recommendation 1

District staff's **recommendation is to budget for 2% resident FTES growth in FY 2013-14**. If needed, this goal will be adjusted as more information becomes available.

7.1.2 Stability vs. Borrowing

Stability is a mechanism that allows funding for districts that do not meet their base resident FTES to still be funded, within the year they are short, as if they had achieved their FTES base. As Table 2 shows, the District is currently projecting it will serve 27,124 resident FTES – 647 resident FTES short of its base. Were the District to go on stability it would still be funded in the current fiscal year for its base resident FTES of 27,771.

Stability allows a District three years to recover its base resident FTES before permanent funding is lost. This means the District would have through FY 2015-16 to recover its resident FTES base of 27,771 before permanent loss of base funding would occur. Stability does not, however, guarantee base funding for the three years given to recover; it simply provides the *opportunity* to recover. Put another way, if the District were to go on stability in FY 2012-13 its entire base of 27,771 resident FTES would be funded. However, if the District failed to fully recover its base resident FTES in FY 2013-14, it would be funded only on the actual resident FTES earned in FY 2013-14 – and not its original base of 27,771. In this example, the District would still have two additional years to restore its base funding back to its pre-stability level and would receive apportionment only for what it earns in those years.

Currently, 11 community college districts in the state are on stability. The District was on stability as recently as FY 2008-09 and recovered its FTES in one year rather than the three years allowed.

Borrowing, on the other hand, is a mechanism used to avoid stability and/or capture growth/restoration funds. It is done through recognizing eligible summer session FTES in the previous fiscal year. Eligible courses have the census date in one fiscal year and the ending date in the subsequent fiscal year. Essentially, borrowing can give a district *two* summer sessions to count towards a single fiscal year's FTES total. Of course, this method allows for fewer sessions to collect FTES in the subsequent year. It is, however, permissible (and the District has done so in the past) to utilize borrowing over multiple, successive years.

In contemplating potential strategies, the District staff reviewed the FTES figures in order to evaluate the risk and reward of stability versus borrowing.

7.1.2.1 Stability Option

Currently, the District is projecting to be 647 resident FTES short of its base and 838 resident FTES short of its target (Table 2, page 7). By going on stability and not borrowing from Summer 2013, the District would forego the funding attached ($870,000) to the 191 resident FTES (the difference between the target FTES and base FTES). The District would then have three years to recover its base of 27,771 resident FTES before permanent funding is lost.

This option allows the District to have all its academic sessions available to recover its base in FY 2013-14. In addition, as there is likely to be growth money on the table in FY 2013-14, the District would be in the best position to earn and capture that additional ongoing funding. Moreover, because restoration funding is treated differently from growth funding, the 191 FTES the District would leave on the table in FY 2012-13 would be back on the table and eligible to be earned in FY 2013-14. An excerpt from the State Chancellor's Office memo addressing this issue is shown below:

> *"Those districts that have not yet increased their FTES enough to receive their share of the restoration funds will have the rest of 2012-13* ***and 2013-14*** *to do so, after which the opportunity to restore the 2009-10 workload reduction cuts will be lost."*

By going on stability in FY 2012-13, the District is strategically placed to capture the likely larger growth funds available in FY 2013-14. Table 7 shows the growth needed, by college, over its current FY 2012-13 projection to reach its base in FY 2013-14. Table 7 also shows the resident FTES needed for 1% growth over base and the dollars associated with that potential growth.

	FY 2012-13 Estimated FTES	**FY 2013-14 FTES Needed for Base**	**Additional FTES Needed**	**% Growth Needed**	**FTES for 1% Growth over Base**	**$s Associated with 1% Growth**
CCC	5,225	5,581	356	6.8%	56	$ 255,640
DVC	14,482	14,642	160	1.1%	146	$ 666,490
LMC	7,417	7,548	131	1.8%	75	$ 342,375
District Total	**27,124**	**27,771**	**647**	**2.4%**	**278**	**$1,264,505**

Table 7

Table 7 shows that by going on stability in FY 2012-13, the District would only need to grow 2.4% year-over-year to get itself off stability. Should the District grow beyond the year-over-year 2.4%, it would be eligible to receive any growth funding the state makes available.

7.1.2.1.1 Stability Option Analysis

Benefits to Stability:

- The District receives full funding for its resident FTES base of 27,771 despite only generating 27,124 FTES.
- The District does not borrow FTES from Summer 2013, leaving all academic sessions available for FTES generation in FY 2013-14.
- More state growth/restoration money is likely to be on the table in FY 2013-14 than in FY 2012-13.
- The 0.7% in restoration funding ($870,000) can still be earned in FY 2013-14.
- The year-over-year growth rate to get off stability is just 2.4%.

Drawbacks to Stability:

- The District will not receive the 0.7% in ongoing funding ($870,000) in FY 2012-13.
- The District must earn back its base funding within three years or see a permanent loss in its funded FTES.

7.1.2.2 Borrowing Option

As previously stated, the District is currently 647 resident FTES short of its base and 838 resident FTES short of its target. Borrowing FTES to make base would keep the District off stability, but provide no financial gain. The funding the District would receive if it borrowed to its base would be equal to the funding it would receive by going on stability. In order to experience any financial benefits from borrowing, the District would need to borrow up to its target. This would require borrowing 838 resident FTES from Summer 2013, which represents a substantial percentage of the historical FTES generated during that session. Moreover, the District would be borrowing 838 resident FTES in order to receive funding for 191 resident FTES. This provides just $1,038 in marginal revenue per borrowed FTES. Essentially, the District would borrow 4.4 FTES for every 1.0 FTES for which it will receive funding. Table 8 shows what borrowing that level of FTES would mean at each site, using Summer 2012 as a benchmark.

	Borrowed FTES Needed	% of Summer*
CCC	394	83.3%
DVC	261	22.0%
LMC	183	28.2%
District Total	**838**	**36.4%**

* % of Summer is based upon Summer 2012 figures

Table 8

As Table 8 illustrates, borrowing from Summer 2013 would have a disproportionate impact on Contra Costa College. With the level of borrowing needed, Contra Costa College would be unable to make its base in FY 2013-14. Table 9 shows the level of year-over-year growth needed, by college, in FY 2013-14 should the District decide to borrow from Summer 2013. This is the level of year-over-year growth required to make base in FY 2013-14 and does not include any of the likely growth funding available in that period.

	FY 2012-13 Estimated FTES	**FTES Borrowed from Summer**	**FY 2013-14 FTES Needed for Base**	**Additional FTES Needed**	**% Growth Needed**
CCC	5,225	394	6,013	788	15.1%
DVC	14,482	261	15,004	522	3.6%
LMC	7,417	183	7,783	366	4.9%
District Total	**27,124**	**838**	**28,800**	**1,676**	**6.2%**

Table 9

To avoid stability in FY 2013-14, the District would need to grow its resident FTES 6.2% over its projected FY 2012-13 total. This is unrealistic, especially for Contra Costa College whose required growth would exceed 15%. Due to the high percentage of overall District growth needed, if the borrowing option is chosen the District would almost certainly have to go on stability in FY 2013-14, foregoing any growth funding available in that year.

7.1.2.2.1 Borrowing Option Analysis

Benefits to Borrowing:

- The District receives full funding for its resident FTES target base of 27,962, which includes $870,000 in new, ongoing revenue.
- The District avoids going on stability in FY 2012-13.

Drawbacks to Borrowing:

- The District would need year-over-year growth of 6.2% in FY 2013-14 to avoid stability, an unlikely prospect.
- The District would likely go on stability in FY 2013-14 and be unable to capture any growth in that year.
- Due to the size of its resident FTES shortfall, Contra Costa College would be disproportionately affected by borrowing.
- The District would be borrowing 4.4 resident FTES for every 1.0 resident FTES in funding.

7.1.2.3 Recommendation 2

District staff believes that the **best option is to go on stability in FY 2012-13**, providing the District its full complement of academic sessions in FY 2013-14 to recover its base and capture any growth funding available. Moreover, per the State Chancellor's Office, the restoration funds of $870,000 that the District would forego by not borrowing in FY 2012-13 would still be earnable in FY 2013-14.

Simply put, the likelihood is that more ongoing money will be on the table in FY 2013-14 than what is available in FY 2012-13. By going on stability in FY 2012-13, the District gives itself an opportunity to earn the 2% or higher restoration/growth that FY 2013-14 is likely to offer. By comparison, FY 2012-13 only has 0.7% restoration funding which requires borrowing FTES at a 4.4 to 1.0 funded ratio. Borrowing to capture the FY 2012-13 restoration funding of 0.7% ($870,000) effectively eliminates the possibility of the District earning the potential 2% ($2.5 million) or higher growth/restoration funding in FY 2013-14.

For these reasons, District staff strongly recommend going on stability in FY 2012-13.

7.2 FY 2012-13 and 2013-14 Comparison

Table 10 shows a comparison between the projected actuals for FY 2012-13 and the projected tentative budget for FY 2013-14. Revenues and expenditures include local revenues/uses. The resident FTES target for FY 2013-14 is at 28,326 and will likely be adjusted after the Governor's May revise provides more definitive information on how the $196.7 million in increased apportionment funding will be distributed.

	FY 2012-13 Projected Actuals	FY 2013-14 Projected Tentative Budget	Increase/ (Decrease)
Funded Resident FTES	27,771	28,326	555
Revenues	$160,673,266	$164,310,100	$3,636,834
Expenditures	160,918,060	165,418,740	$4,500,680
Opening Fund Balance	31,919,592	31,674,795	
Increase/(Decrease)	(244,794)	(1,108,640)	
Reserves	$31,674,795	$30,566,155	$(1,108,640)

Table 10

7.2.1 Projected 2013-14 Reserves

The reserves shown in Table 11 comprise the operating portion of the unrestricted general fund and estimates a tentative budget FY 2013-14 ending reserve balance of $30,566,155. Table 11 details the distribution of the projected FY 2013-14 ending reserve balance between designated and undesignated categories.

	2013-14 Projected Tentative Budget
Designated College Reserves	2,325,145
Designated District Office Reserves	60,000
Subtotal, Designated Reserves*	**$8,713,577**
5% Contingency Reserve	8,215,505
5% Board Reserve	8,215,505
1% Minimum Location Reserves	1,350,000
Subtotal, Designated Reserves**	**$17,781,010**

Undesignated Districtwide Reserve	1,400,000
Undesignated College Reserves	6,600,000
Undesignated District Office Reserves	2,400,000
Subtotal, Undesignated Reserves* **	**$10,400,000**
TOTAL RESERVES 6/30/14	**$30,566,155**

Table 11

* Designated College and District Office Reserves**: Deficit funding reserves, Instructional Service Agreement reserve and other long-term liability calls on reserves (load banking, vacation).**

** Board and Location Reserves**: Board Reserve at 10%, site reserves at 1% per Business Procedure 18.01.**

*** Undesignated Reserves**:** *Estimated* **reserves with no calls; largely determined by each college**

8. DISTRICT FISCAL TRENDS

Table 12 provides a three-year income statement for the District's unrestricted, ongoing operating fund. It also provides a projected income statement for FY 2012-13. Highlights of Table 12 include:

- $13.7 million apportionment reductions between FY 2010-11 and FY 2011-12;
- increases in local revenue from $12.6 million in FY 2009-10 to $15.9 million in the current year (largely due to the increase in non-resident and international students);
- total salary expenses reduced from $109.6 million in FY 2009-10 to an estimated $97.2 million in the current fiscal year; and
- the recognition that even as salary costs have been reduced, benefits costs have risen $3.7 million since FY 2009-10.

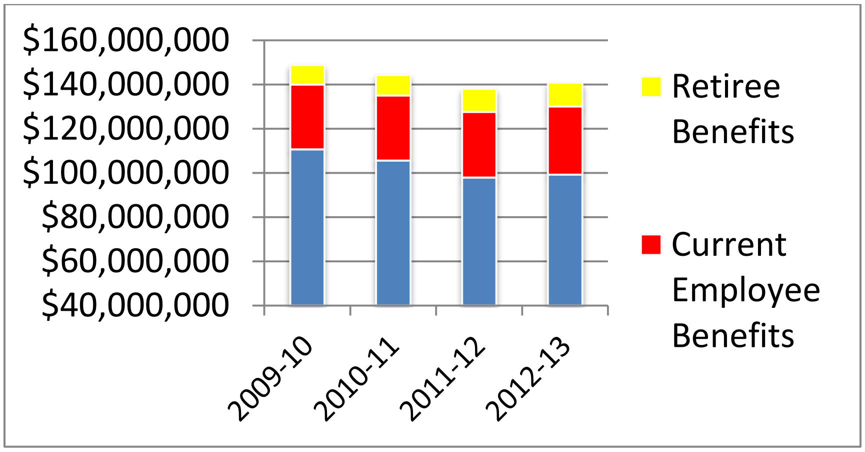
Revenue	Final Actuals 2009-2010	Final Actuals 2010-2011	Final Actuals 2011-2012	Projected Actuals 2012-2013
Apportionment Revenues	146,631,278	147,772,032	134,028,560	138,588,935
Federal Revenues	41,351	27,430	5,640	-
Other State Revenues	4,838,566	4,846,228	4,868,480	4,663,441
Other Local Revenues	12,619,592	14,098,929	15,042,915	15,857,627
Other Financing Sources	65,673	1,272,323	1,204,025	1,563,263
Total Revenues and Other Financing Sources	**164,196,460**	**168,016,942**	**155,149,620**	**160,673,266**
Expenses				
Monthly Instructional Salary	33,240,977	31,904,288	30,616,762	31,226,544
Noninstructional Salaries Full Time	13,781,984	13,183,048	12,533,249	12,868,293
Instructional Salaries Part Time	26,797,481	26,034,427	24,146,936	23,399,423
Noninstructional Salaries Part Time	1,551,014	1,210,427	1,318,281	1,026,205
Total Academic Salaries	**75,371,456**	**72,332,190**	**68,615,228**	**68,520,465**
Noninstructional Salaries Full Time	26,658,155	25,770,125	22,291,828	23,722,348
Instructional Aides Full Time	3,282,695	3,032,183	2,629,719	2,823,360
Variable Non-Instructional	3,219,205	2,273,321	2,230,647	1,416,214
Variable Classroom Aide	807,968	834,616	738,154	543,942
Variable Aide Other	228,547	222,270	196,804	163,999
Total Classified Salaries	**34,196,570**	**32,132,515**	**28,087,152**	**28,669,863**
Benefits	37,960,218	38,658,570	40,053,021	41,694,598
Total Salaries and Benefits	**147,528,244**	**143,123,275**	**136,755,401**	**138,884,926**
Operating Costs	15,603,725	14,852,065	14,843,451	16,567,281
Capital Outlay	867,531	689,010	473,733	689,156
Other Outgo	1,558,486	1,470,686	4,330,492	4,776,697
Total Expenses	**165,557,986**	**160,135,036**	**156,403,077**	**160,918,060**

Table 12

8.1 Salary and Benefit Trends

The District continues to see significant increases in the cost of providing health benefits for active and retired employees. Chart 1 shows the past four years of salary and benefit costs. Of note in Chart 1 is:

- salary costs have decreased $11.4 million from FY 2009-10 to FY 2012-13;
- benefit costs have increased $3.5 million from FY 2009-10 to FY 2012-13, ***despite*** salary costs decreasing $11.4 million over the same timeframe; and
- in FY 2009-10 for every dollar spent on salaries, an additional 34 cents was spent on benefits; however, in FY 2012-13 for every dollar spent on salaries, an additional 42 cents is spent on benefits. This is a 23.5% increase between FY 2009-10 and FY 2012-13.



Cumulative Totals:

2009-10: ***$148.8 million (Total benefits at 34.4% of salary)***
2010-11: ***$144.4 million (Total benefits at 36.7% of salary)***
2011-12: ***$139.6 million (Total benefits at 41.4% of salary)***
2012-13: ***$140.8 million (Projected total benefits at 41.9% of salary)***

Chart 1

8.2 Banked Load and Vacation Accrual

Table 13 shows a six-year history of banked load and accrued vacation liabilities. Of note in Table 13 is:

- an increase in long-term debt reserves of $1.7 million in FY 2011-12; and
- a 19% year-over-year reduction in the unfunded liabilities in FY 2011-12.

Banked Load and Vacation Liability Trends

		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
A	Long-Term Debt Reserve	2,739,043	2,750,000	2,750,000	2,750,000	1,674,980	3,369,928
B	Faculty Load Bank Liability	7,300,015	8,500,649	9,124,113	9,088,324	9,521,011	9,247,428
C	Accrued Vacation Liability	4,219,545	4,680,969	4,988,710	4,816,184	4,457,328	4,104,747
D	Unfunded Liability (D = A-B-C)	(8,780,517)	(10,431,618)	(11,362,823)	(11,154,508)	(12,303,359)	(9,982,247)
	Changes in Reserve	-	10,957	-	-	(1,075,020)	1,694,948
	Changes in Load Banking Liability	-	1,200,634	623,464	(35,789)	432,687	(273,583)
	Changes in Accrued Vacation Liability	-	461,424	307,741	(172,526)	(358,856)	(352,581)
	Percentage Change in Liability	-	19%	9%	-2%	10%	-19%

Table 13

9. Next Steps

The Governor's revised budget is expected to be released in mid-May 2013. As there is likely to be significant changes in the Governor's May revise, changes will be made to the Tentative Budget presented to the Board in June for adoption. Prior to the Board's approval in June, the Tentative Budget will be taken though the participatory governance process.

The Adoption Budget must be approved at the September 2013 Board meeting. The District is hoping for another on-time state budget to help in its early planning. An on-time state budget will mean the District will have a high level of certainty in its state funding and that, unlike in FY 2012-13, significant changes to the Adoption Budget will not be needed.

10. Conclusion

A growing economy and higher projected tax receipts for the state has created the best budget atmosphere the District has seen in years. The opportunity for incremental dollars from the state in growth/restoration means the District will be aggressive in its course offerings in FY 2013-14. With an improving job market, the District must be innovative and market the value it provides in order to achieve its desired growth rate.

Community colleges face significant challenges in improving economic times. The demand for services goes down at the same time when incremental funding is available to increase those same services. The District is ready to face this challenge in the upcoming fiscal year and is situated to make prudent, informed decisions with a long-term perspective while continuing to provide the students in its service area a high quality educational experience.

Contra Costa Community College District

pathways to success

APPENDICES

A. Sound fiscal management Checklist
B. Audit Findings for FY 2010-11 and 2011-12
C. 2013-14 Budget Development Assumptions
D. Three-Year Budget Forecast
E. Five-Year Expenditure Trends

APPENDIX A
SOUND FISCAL MANAGEMENT CHECKLIST

Pursuant to Education Code 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 regularly complete the checklist with the 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	The District is projected to utilize $244,794 of reserves in FY 2012-13, about one-tenth of one percent of its expenditure budget.
Has the District controlled deficit spending over multiple years?	Yes	The District has built up the ending fund balance since FY 03-04 primarily by identifying and setting aside one-time, unrestricted revenues.
Is deficit spending addressed by fund balance, on-going revenue increases, or expenditure reductions?	Yes	The District makes a budgetary distinction between "on-going" and "one-time" revenues and expenditures. For FY 2012-13, the District's on-going expenses are budgeted in excess of on-going revenues. However, the District is projecting revenues and expenditures to be very closely aligned in FY 2012-13.
Are District revenue estimates based upon past history?	Yes	Non-apportionment revenues are based upon past history and adjusted for known changes. 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 FTES targets that are set during budget development. FTES targets 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 03-04 growing from $8,642,592 to $31,919,592 in FY 11-12. It is expected that the ending fund balance will remain fairly stable over the next 2-3 years as state revenues are expected to grow.

Is the fund balance increasing due to ongoing revenue increases and/or expenditure reductions?	Yes	The prior increase in fund balance occurred due to a combination of expenditure control in FY 03-04, FY 04-05, & 05-06, and revenue increases in FY 07-08, FY 08-09 and FY 10-11 due to restoration in FTES. Passage of Proposition 30 will provide stability for the District.
3. Enrollment		
Is this Area Acceptable?	**Yes**	
Has the District's enrollment been increasing or stable for multiple years?	No	The District's enrollment peaked in 2002-03 and declined until FY 06-07. The District exceeded the funding cap in FY 09-10, FY 10-11 and FY 11-12 due to statewide workload reductions. The District expects to go on stability in FY 12-13 as enrollment has declined.
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	The course schedule at each location determines the staffing levels per term. In addition, enrollment trends drive the level of managers, classified and other non-instructional personnel.
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 04-05 and FY 08-09. The District exceeded its funded FTES in FY 09-10, earned all available growth in FY 10-11, and exceeded its cap in FY 11-12. The District does expect to receive stabilization funding in FY 2012-13.
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 FY 08-09 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 & 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 if needed.

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	On-going salary increases are determined based on an agreed upon formula taking into consideration on-going restoration revenue, new resources and permanent expenditure reductions. The District has not given salary increases since FY 08-09, but has an approved contract in place for United Faculty through FY 13-14 and for Local One (classified staff) through FY 12-13.
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.
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 2009-10 was 85%).	No	For 2011-12, the percentage of the general Fund that was expended for salaries and benefits was 87.4%. In 2012-13, the percentage of the General Fund budgeted for salaries and benefits is 88.2%.
8. Internal Controls		
Is this Area Acceptable?	**Yes**	
Does the District have adequate internal controls to insure the integrity of the general ledger?	Yes	For the majority of the District's transactions, there were adequate controls to insure the integrity of the 2011-12 general ledger and an unqualified opinion of the financial statements was issued by the District's independent auditors.
Does the District have adequate internal controls to safeguard the District's assets?	No	While the District has made significant progress in this area, work is ongoing to ensure appropriate internal controls are in place throughout the District.

9. Management Information Systems		
Is this Area Acceptable?	**Yes**	
Is District data accurate and timely?	Yes	The District has taken steps to ensure a timely and accurate close of the fiscal year. The FY 2011-12 records were complete prior to the District audit and the close of the fiscal year is being done timely.
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. Commonly requested documents, such as budget and audits, are also available on the Vice Chancellor's web page.

10. Position Control		
Is this Area Acceptable?	**Yes**	
Is position control integrated with payroll?	No	The District's human resources personnel and position system is fully integrated with the payroll system. The District does not utilize a position control system per se, but instead budgets operational allocations that can be used for positions only after multiple levels of review and approval.
Does the District control unauthorized hiring?	Yes	The District's Human Resources Department oversees hiring. Regular positions are validated by the Finance Department for budget only.
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, by either Board action or campus decisions. The revised budgetary figures are taken to the Board on a monthly basis for review purposes. The Board approves budget revisions quarterly.
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?	Yes	Most long term debt is held in the 2002 and 2006 bonds. As they have been spent and no new issuances have been done recently, long-term debt decreased by $17 million. This will increase in subsequent years as more 2006 issuances are

		sold. Long-term debt from vacation and banked load are also considerations.
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). The District compiles an actuarial every two years for GASB 45 post employment health benefits debt and has established an irrevocable trust to meet GASB 45 guidelines.
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 in February 2011. The District's unfunded liability is at $182 million, down from $262 million at the prior study.
Does the District have a plan for addressing the retiree benefits liabilities?	Yes	By the end of FY 12-13, the District will have set aside over $60 M toward funding this liability. The District selected a financial advisor, appointed a Retirement Board of Authority, prepared a substantive plan, and has funded between $8.8 - $9.1M each year since FY 08-09 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 eighth year and has been with the District for over 20 years. The Governing Board has five members, one elected in January 2010; two elected in November 2012; and two who have served for more than ten years.
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.

APPENDIX B
AUDIT FINDINGS FOR FY 2010-11 AND 2011-12

The annual financial audit for the District conducted by James Marta & Co. for FY 2011-12 reported four findings. 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 issues of the audit, the District's response, the managers in charge and the expected completion date. Of note, all the findings from the FY 2010-11 audit were found to be implemented by the auditors. In addition, all the findings from the FY 2011-12 are implemented.

Audit Findings for FY 2010-11

2010-11 Audit Findings	Description of Recommendation	District Action	Responsible Managers	Target Date of Completion	Progress
2011-1 Significant Deficiency	Federal Direct Loans administered at DVC did not notify students or parents of their right to modify or cancel loans. Reconciling the loans was not done at all colleges.	Modify the DVC loan letter to accommodate the requirement. All colleges are now reconciling loans through the COD system.	Vice Chancellor College Financial Aid Directors	June 2011	Implemented
2011-2 Significant Deficiency	Contact hours for Positive Attendance courses overstated by 2.58 FTES	District will communicate with faculty the importance of retaining documentation.	Vice Chancellor A/R Directors	June 2011	Implemented
2011-3 Significant Deficiency	To Be Arranged Hours on weekly courses did not have adequate documentation either in official course outlines or syllabi. 14.65 FTES were removed from the 320 report.	Checklists to verify compliance will be developed. Internal auditor will spot check to verify compliance.	Vice Chancellor A/R Directors	June 2011	Implemented

Audit Findings for FY 2011-12					
2011-12 Audit Findings	Description of Finding	District Action	Responsible Managers	Target Date of Completion	Results
2012-1 Significant Deficiency	Cash in the county treasury did not match the cash within the District's general ledger.	The District adjusted its cash upwards $1.2 million to align with the county treasury. Ongoing cash reconciliations are being done.	Director of District Finance Services	June 2013	Implemented
2012-2 Significant Deficiency	The satisfactory academic progress policies at each college were missing required federal components.	The District immediately corrected this issue and all campuses are now in compliance.	Director of District Finance Services and college financial aid directors	June 2012	Implemented
2012-3 Significant Deficiency	Student financial aid verification policies and procedures at each college were missing required federal components.	The District immediately corrected this issue and all campuses are now in compliance.	Director of District Finance Services and college financial aid directors	June 2012	Implemented
2012-4 Significant Deficiency	Eligibility verification is required of CalWorks students *prior* to the student receiving benefits. At Diablo Valley College, two students received benefits before their eligibility had been confirmed.	Diablo Valley College is aware of this requirement and will not award CalWorks funds prior to student eligibility being verified.	College financial aid directors	June 2012	Implemented

APPENDIX C

2013-14 BUDGET DEVELOPMENT ASSUMPTIONS

Key Budget Assumptions - 2% Growth FTES, 7% increase in H/W

Unrestricted General Fund

FTES	12/13 Budget	13/14 Preliminary Budget
Credit rate	$ 4,564.83	$ 4,564.83
Non-Credit rate	$ 2,744.96	$ 2,744.96
Credit target	27,884.22	28,247.00
Non-Credit target	77.86	78.88
Credit - funded	27,884.22	28,247.00
Non-Credit - funded	77.86	78.88
Non-Resident Target	2,268.00	2,493.00

		12/13 Budget	13/14 Preliminary Budget
Revenue Assumptions			
1.	FTES (Resident)	27,962	28,326
2.	FTES (Non-Resident)	2,268	2,268
	Revenue (2013-14 assumes 2% incr. to rate)	$10,873,083	$12,205,471
3.	Student Fee Revenue	$46	$46
4.	Deferrals (systemwide)	$801M	$622M
5.	COLA	0.00%	0.00%
6a.	Lottery, unrestricted	$120	$122
	Revenue Generated	$3,536,267	$3,759,903
6b.	Lottery, Prop 20 Restricted	$19	$29
	Revenue Generated	$568,800	$893,748
7.	Deficit (property taxes/enrollment fees)	0.4%	0.4%
	Reduction in Revenue	($563,507)	($568,000)
Expense Increase/Decreases			
Expenditure Assumptions			
1a.	PERS	11.417%	11.550%
1b.	PERS Safety	25.013%	25.300%
2.	Workers Comp	1.8746%	1.8746%
3a.	Property and Liability Insurance	1,250,000.00	1,275,000.00
	Expenditure Increases		
3b.	Student Accident Insurance/Student Assistance Program	300,000.00	310,000.00
	Expenditure Increases		
4.	State Unemployment Insurance	1.10%	0.05%
5.	Health and Welfare (H&W)	5.00%	7.00%
	Active Employees	$15,319,942	16,392,338
	Retirees	$11,000,453	11,770,485
		$26,320,395	28,162,823
6.	Long Term Disability (salary continuance)	0.42%	0.42%
7.	STRS	8.25%	8.25%
	Expenditures		
8.	Step & Column (Annual Average)	1.2%	1.2%
9.	Audit	$175,000	$185,000
10.	Subsidies for CCC, DVC and LMC	$1,049,737	$447,465
11.	Retiree Health Benefit (Annual Contribution)	$1,000,000	$1,000,000
12.	Facility scheduled maintenance	$300,000	$300,000
13.	Utilities	$3,635,125	$3,599,581
14.	IT Maintenance Agreements	$700,000	$1,000,000

APPENDIX D
THREE-YEAR BUDGET FORECAST

Contra Costa Community College District
Three Year Budget Forecast*
2013-2014 Fiscal Year and Beyond

Unrestricted, Ongoing General Fund	*2% Growth 28,326 FTES* **FY 2013-14**	*2% Growth 28,893 FTES* **FY 2014-15**	*2% Growth 29,471 FTES* **FY 2015-16**
Base Revenue	$ 161,777,666	$ 164,310,100	$ 166,896,302
Growth Revenue	2,532,434	2,586,202	2,637,926
Revised Revenue	**$ 164,310,100**	**$ 166,896,302**	**$ 169,534,228**
Budgeted Ongoing Expenses	$ 162,518,740	$ 165,418,740	$ 168,475,940
Step/Column Increases	1,100,000	1,113,200	1,126,558
Health Benefits Cost Increases	1,800,000	1,944,000	2,099,520
Revised expenditures	**$ 165,418,740**	**$ 168,475,940**	**$ 171,702,018**
Revenue less Expense	**$ (1,108,640)**	**$ (1,579,638)**	**$ (2,167,790)**
Potential Expenditure Reductions	-	-	-
Beginning fund balance	$ 31,674,795	$ 30,566,155	$ 28,986,517
Estimated Ending Balance	**30,566,155**	**28,986,517**	**26,818,727**
Amount of Fund Balance Spent	**$ (1,108,640)**	**$ (1,579,638)**	**$ (2,167,790)**

*Will change as better data obtained
Please note the figures are estimates based on current information and subject to change

Key Assumptions

2% Growth in each year (no COLA predicted)
Step/Column increases at 1.2% each year
Health Benefit increases in FY 2014-15 and FY 2015-16 at 8% each year

Note: A 1% COLA, if given, is worth approximately $1.3 million to the District

Appendix E
Five-Year Expenditure Trends