STUDY SESSION

DEVELOPMENT OF THE 2017-18 DISTRICT BUDGET

APRIL 26, 2017

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

STUDY SESSION
DEVELOPMENT OF THE
2017-18 DISTRICT BUDGET

AGENDA

I. Review of FY 2016-17 budget status and FY 2017-18 budget development discussion

II. Response 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 respond to the presentation and provide direction to the Chancellor on the items to be included in the budget.

STUDY SESSION
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1. INTRODUCTION

This budget study session document is prepared in adherence to the District's policies and procedures established for development of the annual budget. 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, as delineated in the District's strategic plan.

The budget development process also adheres to Education Code §70901 and Title 5 §58301. These sections mandate the Governing Board hold a public hearing on the proposed budget for the ensuing fiscal year on or before September 15, but at least three days following availability of the proposed budget for public inspection. At the public hearing, any resident may appear and object to the proposed budget or any item in the budget.

Notification of dates and location(s) at which the proposed budget may be inspected by the public and date, time, and location of the public hearing on the proposed budget shall be published by the District in a newspaper of general circulation in the District.

Board Policy 5033, Budget Development, establishes the District's budget development process. 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 laws and regulations and provide adequate time for Board review. The policy delineates the budget development criteria and values.

1.1 Criteria

The budget development process shall meet the following 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 that includes dates for presentation of the Tentative Budget, required public hearing(s), Board study session(s), and approval of the adopted budget;
- unrestricted general reserves shall be no less than 5 percent to address significant opportunities that present themselves throughout the year;
- changes in the assumptions upon which the budget is based shall be reported to the Board in a timely manner; and
- 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 is exercised in the development and management of the budget. These values are upheld by ensuring:

- discussions and 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, <u>Parameters for Budget Development and Preparation</u>

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 percent of the unrestricted general fund budgeted expenditures for the fiscal year: an additional 5 percent 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;
- 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 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 DISTRICTWIDE GOALS AND OBJECTIVES STRATEGIC PLAN 2014-19

GOALS	OBJECTIVES
GOAL 1 **ENHANCE STUDENT LEARNING AND SUCCESS: Create opportunities for thoughtful reflection and organizational learning that use meaningful quantitative and qualitative data, dialogue with diverse member of the community, student feedback, and other information in order to improve student outcomes.**	1.1 Conduct activities that improve student performance in areas included in the Student Success Scorecard over time. 1.2 Provide student support that focuses on student engagement and excellence in service. 1.3 Support high-quality distance education as an option for increasing access and promoting student success.
GOAL 2 **STRENGTHEN CURRENT AND CREATE NEW PARTNERSHIPS: Build pipelines that guide and prepare both K-12 students and the adult population for success in higher education and employment.**	2.1 Expand and deepen partnerships with educational institutions from preschool through four-year colleges, increasing both collaboration and alignment in order to expand access to the District for students of all backgrounds, ensure that enrolling students are prepared for success at the college level, and facilitate the achievement of bachelor's degrees and beyond. 2.2 Increase partnerships with business, community organizations and public agencies to meet community, economic and workforce needs and serve as a force for positive change.
GOAL 3 **CREATE A CULTURE OF CONTINOUS IMPROVEMENT AND TANGIBLE SUCCESS: Provide opportunities for employees at all levels to continually gain new skills and knowledge, seek out effective practices, and share ideas with one another in order to continually enhance learning and improve student success.**	3.1 Bring together administrators, faculty and staff within and across departments, divisions, and colleges to review relevant research and data, reflect on progress toward goals, and make course corrections as needed to ensure learning of the highest quality at all times. 3.2 Conduct focused recruitment efforts that result in the hiring of employees who are sensitive to and knowledgeable of the needs of our continually changing student body. 3.3 Create mechanisms to ensure employees have skills and knowledge to serve the needs of diverse students and implement practices that create equitable outcomes. 3.4 Expose employees at all levels to opportunities that enhance their knowledge, skills, and abilities to identify and develop emerging and promising practices.
GOAL 4 **BE GOOD STEWARDS OF THE DISTRICT'S RESOURCES: By word and deed, demonstrate sound judgment in the use of the District's current and potential physical and fiscal resources. Deepen alignment and coordination among the District and its three colleges, leveraging the District assets of each institution as well as the unique power of their combined efforts to strategically tackle challenges, increase resource efficiency, and better serve our students.**	4.1 Develop processes within the District to enable the colleges to work both autonomously and collaboratively to increase operational and administrative efficiency and provide students programs and services of the highest quality. 4.2 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. 4.3 Practice fiscal prudence in order to ensure financial integrity and stability. 4.4 Diversify sources of revenue. 4.5 Provide a safe physical environment that is conducive to learning.

3. **CONTRA COSTA COMMUNITY COLLEGE DISTRICT**
2016-17 GOVERNING BOARD PRIORITIES

District Strategic Direction – Goal 1: Enhance Student Learning and Success
Create opportunities for thoughtful reflection and organizational learning that use meaningful quantitative and qualitative data, dialogue with diverse members of the community, student feedback, and other information in order to improve student outcomes.

1.1 Conduct activities that improve student performance in areas included in the Student Success Scorecard over time.
1.2 Provide student support that focuses on student engagement and excellence in service.
1.3 Support high-quality distance education as an option for increasing access and promoting student success.

District Strategic Direction – Goal 2: Strengthen Current and Create New Partnerships
Build pipelines that guide and prepare both K-12 students and the adult population for success in higher education and employment.

2.1 Expand and deepen partnerships with educational institutions from preschool through four-year colleges, increasing both collaboration and alignment in order to expand access to the District for students of all backgrounds, ensure that enrolling students are prepared for success at the college level, and facilitate the achievement of bachelor's degrees and beyond.
2.2 Increase partnerships with businesses, community organizations and public agencies to meet community, economic and workforce needs and serve as a force for positive change.

District Strategic Direction – Goal 3: Create a Culture of Continuous Improvement and Tangible Success
Provide opportunities for employees at all levels to continually gain new skills and knowledge, seek out effective practice, and share ideas with one another in order to continually enhance learning and improve student success.

3.1 Bring together administrators, faculty, and staff within and across departments, divisions, and colleges to review relevant research and data, reflect on progress toward goals, and make course corrections as needed to ensure learning of the highest quality at all times.
3.2 Conduct focused recruitment efforts that result in the hiring of employees who are sensitive to and knowledgeable of the needs of our continually changing student body.
3.3 Create mechanisms to ensure employees have skills and knowledge to serve the needs of diverse students and implement practices that create equitable outcomes.
3.4 Expose employees at all levels to opportunities that enhance their knowledge, skills, and abilities to identify and develop emerging and promising practices.

District Strategic Direction – Goal 4: Be Good Stewards of the District's Resources
By word and deed, demonstrate sound judgment in the use of the District's current and potential physical and fiscal resources. Deepen alignment and coordination among the District and its three colleges, leveraging the District assets of each institution as well as the unique power of combine efforts to stragi9cally tackle challenges, increase resource efficiency, and better serve our students.

4.1 Develop processes within the District to enable the colleges to work both autonomously and collaboratively to increase operational and administrative efficiency and provide students programs and services of the highest quality.
4.2 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.
4.3 Practice fiscal prudence in order to ensure financial integrity and stability.
4.4 Diversify sources of revenue.
4.5 Provide a safe physical environment that is conducive to learning.

4. FISCAL YEAR 2017-18 BUDGET DEVELOPMENT CALENDAR

The following is a listing of the actions to be undertaken in the development of the budget for Fiscal Year 2017-18. The budget calendar, noted in Business Procedure 18.06, Budget Preparation, 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 is conducted
- College Business Directors, Chancellor's Advisory Team (CAT), Cabinet, and District Governance Council (DGC) 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 any mid-year shifting of FTES between sites
- 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 are conducted at all District locations
- Chancellor's Cabinet reviews FTES projections and revises as necessary all growth targets
- Board holds study session on Budget
- Colleges, District and Districtwide Services provide expenditures to the District to start development of Tentative Budget
- Chancellor's Cabinet, Faculty Senate Coordinating Council (FSCC) 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 are 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, FSCC and DGC

September
- Newspaper publications are notified of the availability of the Adoption Budget and Appropriations Limit
- Adoption Budget and Appropriations Limit are made 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 5031, Fiscal Management

5. Fiscal Year 2016 – 17 Update

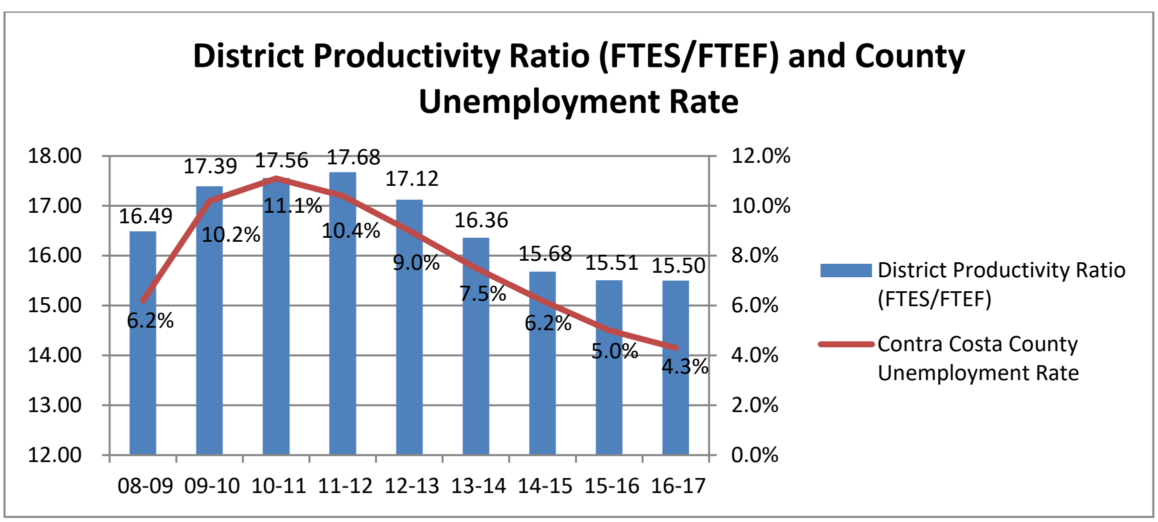
In September 2016, the Governing Board adopted the FY 2016-17 budget. Unlike the prior year, the budget for FY 2016-17 provided little in new, ongoing funding for the District. In fact, with no cost of living adjustment (COLA) given to the community college system, the dollars per FTES funding was unchanged from FY 2015-16. While unfortunate, the lack of a COLA was slightly tempered by a modest increase in the District's base allocation, resulting in an additional $2.0 million in ongoing revenue. Finally, with the District's continued enrollment struggles, available, ongoing growth dollars provided by the state of approximately $2.7 million was not earnable.

The $2.0 million increase in the base allocation fell short of covering the escalating expenses the District absorbed with the CalSTRS rate rising from 10.73 percent to 12.58 percent ($1.1 million year-over-year operating cost increase to the District) and CalPERS rising from 11.85 percent to 13.89 percent ($700,000 year-over-year operating cost increase to the District). Moreover, health benefit costs were anticipated to rise greater than $1 million year-over-year within the District's operating budget. Just in these areas alone, the District had known ongoing, operating expense increases of greater than $2.8 million with the state providing new ongoing revenue of just $2.0 million.

In what has become a predictable trend, the state allocated a significant amount of new Proposition 98 dollars to restricted categorical programs. As an example, the new Strong Workforce Program was funded at $200 million systemwide, greater than the total dollars given to the base allocation increase and growth funding combined. From the District's perspective, this was not the ideal mix of resources and did not provide the desired flexibility for offsetting ever-increasing ongoing expenditures. While categorical funds were welcome and will be efficiently utilized, the District experienced little relief in the state budget to help offset its increasing, ongoing costs.

Moreover, on top of salary and benefit cost increases, the District faces a decrease in the demand for its services. This decrease in demand manifests itself in the overall enrollment declines experienced since the end of the economic recession in FY 2011-12. Further, not only is the overall enrollment down from its recession-peak, but the productivity ratio of FTES divided by Full-Time Equivalent Faculty (FTEF) is also at a low. Essentially, this low productivity ratio of FTES divided by FTEF means classes have fewer students than in previous years, which drives the cost of instruction per FTES higher. A general rule of thumb for the District is that for every 0.5 decrease in the FTES divided by FTEF productivity ratio, an additional $2 million in wages must be spent to maintain the same FTES.

Graph 1 illustrates the changing FTES/FTEF productivity ratios since FY 2008-09 and illustrates the strong correlation between the District's productivity ratio (FTES/FTEF) and the unemployment rate in Contra Costa County.



Graph 1

The colleges and the District Office continually monitor the productivity ratio and are very cognizant of its effect on the overall expenditures of the District. Fortuitously, despite the unemployment rate dropping further to 4.3 percent, it appears as if the District's overall FTES/FTEF productivity ratio has plateaued.

Overall, with year-over-year ongoing costs outstripping the new revenue provided by the state, the District's operating budget was adopted with a structural deficit of $1.46 million, approximately 0.8 percent of the expenditure budget. Table 1 shows the result of this deficit and its impact on the District's fund balance.

Unrestricted General Fund, Operating

Income	$ 185,231,992
Expenses	186,691,342
Net Income over Expenses	$ (1,459,350)
Beginning Fund Balance at July 1, 2016	$ 27,846,085
Operating Deficit	(1,459,350)
Projected Ending Balance at June 30, 2017	**$ 26,386,735**

Table 1

Detailed below are notable changes in revenue and expenditures since the FY 2016-17 Adopted Budget.

5.1 FY 2016-17 Changes in Revenues

Apportionment Recalculation from FY 2015-16
As a reminder, the Governing Board gave direction to District staff at its March 23, 2016, meeting to borrow the entirety of summer 2016 and report those FTES in FY 2015-16. This strategy ensured that the District's funded target would be reached as well as allowed for the opportunity to generate one-time apportionment dollars by increasing its state funded base. In March 2017, the State Chancellor's Office released the final figures from FY 2015-16, which resulted in the District being funded for all reported FTES. This positive news results in an additional $5.2 million in one-time funds. Per the Governing Board's direction, these funds will be directed towards the District's substantial long-term liabilities and other one-time uses.

5.2 FY 2016-17 Changes in Expenditures

Election Costs
With two local Governing Board elections, the District established a FY 2016-17 elections budget of $350,000. Fortunately, the election costs came in at historic lows, far below the average amount per election the District has typically experienced. With the two Governing Board elections costing only $100,000, the result is a savings of $250,000 over the budgeted amount. Consistent with Business Procedure 18.01, the decrease in election expenses will be added to distributable revenue within the District's allocation model.

Compressed Calendar
Recognizing that converting to a 16-week academic calendar requires significant curriculum redevelopment and coordination, and other one-time work related to the

District's learning management system, the Governing Board authorized the use of one-time mandate funds to compensate faculty for this additional effort. Therefore, included in the faculty agreement ratified by the Governing Board at its February 22, 2017, meeting was a one-time, off-schedule payment of 2.5 percent of base pay calculated on eligible faculty earnings from spring 2017. The total cost of this agreement, to be covered from one-time, non-operating mandate reserves, is $794,000.

5.3 FY 2016-17 Adopted Budget and Projected Reserves

The District's expenses are currently trending very close to its amended budget. Table 2 details the Adopted Budget reserves and the Projected Ending reserves for FY 2016-17. The projected ending balance for FY 2016-17 is inclusive of expected transfers for maintenance projects, long-term liabilities, and other one-time designations.

The reserves shown in Table 2 represent the operating, ongoing portion of the unrestricted general fund.

	2016-17 Adopted Budget	2016-17 Projected Ending Balance
Designated College Reserves	$ 5,601,863	$ 5,103,281
Designated District Office Reserves	399,596	168,892
Subtotal, Designated Site Reserves	**$ 6,001,459**	**$ 5,272,173**
5% Board Contingency Reserve	9,262,598	9,262,598
5% Board Reserve	9,262,598	9,262,598
Subtotal, Designated Board Reserves	**$ 18,525,196**	**$ 18,525,196**
Undesignated Districtwide Reserve	235,755	318,509
Undesignated College Reserves	1,029,924	2,579,484
Undesignated District Office Reserves	594,401	678,179
Subtotal, Undesignated Reserves	**$ 1,860,080**	**$ 3,576,172**
TOTAL RESERVES	**$ 26,386,735**	**$ 27,373,541**

Table 2

5.4 FY 2016-17 Adopted Budget Comparison to Projected Actuals

Table 3 shows the difference between the FY 2016-17 Adopted Budget and the projected actuals at year-end for the operating, ongoing portion of the unrestricted general fund. The projected ending fund balance for FY 2016-17 becomes the projected opening balance in FY 2017-18. Keep in mind that additional apportionment funds generated from borrowing are included in the revenue *and* expenditures in the projected actuals column for the receipt and subsequent transfer to a non-operating account.

	FY 2016-17 Adopted Budget	FY 2016-17 Projected Actuals
Revenues	$ 185,231,992	$ 191,611,351
Expenditures	186,691,342	192,083,895
Increase/(Decrease)	(1,459,350)	(472,544)
Opening Fund Balance	27,846,085	27,846,085
Ending Fund Balance	$ 26,386,735	$ 27,373,541

Table 3

6. FISCAL YEAR 2017-18 BUDGET DISCUSSION

6.1 FY 2017-18 Highlights

Governor's Budget Proposal

The Governor's proposed operating budget for FY 2017-18 anticipates and adjusts for an economic slowdown. This prediction is consistent with the shortfall in revenue collections at the state. Through February 2017, the state is short almost $1 billion from its revised January budget forecast. In fact, state revenues have fallen short of budgeted expectations in six of the last eight months. True to form, Governor Brown's budget reflects concern with appropriating one-time funds for ongoing purposes, and emphasizes that the current spending trajectory will lead to a state budget deficit. In an effort to align spending increases to the slowdown in revenue growth, Governor Brown proposes a $122.5 billion expenditure operating budget that would end FY 2017-18 with a fund balance of $2.5 billion and $7.8 billion in the Rainy Day Fund.

Within the FY 2017-18 proposed budget is a Proposition 98 guarantee of $73.5 billion, an increase of $2.1 billion, or 2.9%, over the revised current year-level. The community college system is expected to receive approximately 11% of the Prop 98 funds, consistent with the historical split between K-12 and community colleges. Table 4 illustrates how the Governor's proposed budget allocates these additional revenues to the community college system and their specific impact on the District.

Categories	Governor's Proposal	Impact to District
➢ Access/Growth **(ongoing)**	$79.3 million to fund 1.34 percent in access/growth for the community college system	None budgeted, but potential to earn 384 resident FTES valued at approximately $1.9 million
➢ COLA **(ongoing)**	$94.1 million to fund a COLA of 1.48 percent, raising the value of a resident FTES from $5,005 to $5,079	Approximately $2.1 million in additional apportionment revenue
➢ Base Allocation **(ongoing)**	$23.6 million to increase base allocation funding	Approximately $520,000 to cover increasing operating costs, particularly pension obligations
➢ Deferred Maintenance and Instructional Equipment **(one-time)**	$43.7 million with no local match requirements	A likely distribution of approximately $1.0 million
➢ Guided Pathways **(one-time)**	$150.0 million for an integrated, institution-wide approach focused on improving student success	None budgeted at this time

Table 4

The proposals put forth by the Governor are disappointing in that the $2.6 million in ongoing, unrestricted revenue (COLA and Base Allocation) do not fully address the known cost increases of the District. Further, significant restricted funds (greater than COLA and Base Allocation funding combined) available in the Guided Pathways program do not address the most immediate financial needs of the District. Between increases in health benefits and known or anticipated increases in employer-paid pension costs (CalSTRS and CalPERS), the District will likely see expenses in just these categories increase by over $4 million. Knowing this financial picture is largely consistent within the community college system, the District is hopeful that Governor Brown's budget revision in May takes into account the reality of ongoing costs and allocates additional funding to address these immediate needs.

6.2 FY 2017-18 Planning

Planning for the FY 2017-18 budget begins immediately following the January release of the Governor's proposal. The information contained in the proposal is shared with the Governing Board as well as employee constituency groups through the District Governance Council (DGC). As delineated in Business Procedure 18.06, budget assumptions for the Tentative Budget go through the college Business Directors, Chancellor's Advisory Team, Chancellor's Cabinet, and DGC. Each of these groups provides guidance and input into the budget development process.

As mentioned, the Governor's proposed budget includes nominal additional ongoing, unrestricted funds; the COLA and Base Allocation funding is insufficient to address the escalation in health and pension obligations. Moreover, the growth funds are not attainable. Nevertheless, the Governor's proposal, while not what the District hoped for, shapes the landscape for the Tentative Budget and drives the early stages of the budget planning process.

Resident FTES Targets
With stagnant year-over-year enrollment, the District is budgeting for an unchanged resident FTES target. Achieving this target in FY 2017-18 would necessitate the District experience an approximately 7 percent rise in FTES. In a service area of near full-employment, that is unrealistic. However, it is important to keep in mind that the District is incorporating a portion of its borrowed FTES within its ongoing, operating budget; this enables sustainment of existing operations, investment in outreach and other FTES-generating activities (including sustaining an FTES/FTEF productivity ratio of approximately 15.5), and maintenance of readiness for when the demand for services will inevitably rise.

Table 5 illustrates the static resident FTES target and also shows the dollar value of the COLA and Base Allocation increases directly related to that target.

	FY 2016-17 Resident FTES Target	**FY 2017-18 Resident FTES Target**	**FTES Difference**	**$ Difference**
CCC	5,381	5,381	-	$ 491,250
DVC	15,336	15,336	-	1,427,961
LMC	7,951	7,951	-	721,421
Total	**28,668**	**28,668**	**-**	**$ 2,640,632**

Table 5

Non-resident FTES Targets
The District is planning for static non-resident FTES in FY 2017-18. The targets and total tuition dollars associated with these students, inclusive of the recent hike in the non-resident tuition fee, are included in Table 6.

	FY 2015-16 Non-Resident FTES Target	FY 2016-17 Non-Resident FTES Target	FTES Difference	Total Non-Resident $
CCC	250	250	-	$ 1,197,520
DVC	2,400	2,400	-	13,223,657
LMC	100	100	-	338,748
Total	**2,750**	**2,750**	**-**	**$ 14,759,926**

Table 6

Health Benefit Increase

During the development of the budget assumptions, District staff reviews historical increases and projects the coming increase based on an agreed upon formula: the average of the past seven years' increases excluding the high and the low. The outcome of this formula is a projected increase in health benefit premiums of 6.8 percent. A 6.8 percent premium hike translates to $1.95 million in additional annual cost to the District. The District should receive finalized rates by May and will incorporate the actual plan costs into the Adoption Budget.

Pension Contribution Increase

In a continuance of a trend that began in FY 2014-15, employer-paid pension contributions to CalSTRS and CalPERS continue to rise dramatically. For FY 2017-18, the known increase in CalSTRS will cost the District an additional $1.3 million. For CalPERS, the estimated increase in FY 2017-18 is $745,000. Combined, this greater than $2 million increase creates considerable strain on the District's ability to allocate its resources in other, more desirable ways.

Salary Increase

Any salary increases for FY 2017-18 (which are not included within the expenditure assumptions) will be determined through the collective bargaining process.

6.3 FY 2017-18 Budget Assumptions

Revenue Assumptions

Following are major revenue assumptions from what is known at this point in the state budget process. These revenue assumptions total $3.24 million in incremental revenue.

- COLA of 1.48 percent
  - *Potential impact*: A COLA of 1.48 percent at the resident FTES target of 28,668 will generate $2.1 million in incremental revenue for the District.
- Base Allocation increase
  - *Potential impact*: The proposed increase in the Base Allocations for the system will result in an additional $520,000 in revenue for the District.
- Non-resident FTES target unchanged but with a $17.00 per unit increase in tuition
  - *Potential impact*: The escalation of non-resident tuition will provide an increase of $1.1 million in revenue to the District, primarily attributable to DVC.
- State lottery revenue
  - *Potential impact*: $500,000 decrease in lottery revenue received from the state. This reduction is due to the reportable FTES to the state being artificially low due to borrowing.
- No growth funding will be earned
  - *Potential impact*: With the District facing uncertain demand, no growth funding is earnable.

Expenditure Assumptions

Delineated below are major expenditure assumptions totaling $5.46 million in increased expenses.

- Health benefits costs to increase by 6.8 percent
  - *Potential Impact*: A 6.8 percent increase in health benefits costs results in $1.95 million in additional expenses to the District. This increase includes retiree health benefits, which now comprise approximately 37 percent of the anticipated $33.6 million annual cost of health benefit expenditures.
- Step and column salary increases at 1.2 percent of total salaries
  - *Potential Impact*: Step and column increases are projected to cost $1.32 million and include all classes of employees.
- CalSTRS employer contribution rate to increase from 12.58 percent to 14.43 percent
  - *Potential Impact*: This is a finalized rate set in statute and not an assumption. The increase in the CalSTRS employer contribution results in $1.30 million in additional costs to the District.
- CalPERS employer contribution rate to increase from 13.888 percent to 15.80 percent
  - *Potential impact:* An increase in the CalPERS employer contribution rate from 13.888 percent to 15.80 percent creates an additional $745,000 expense to the District.
- Utility costs expected to increase 5 percent year-over-year
  - *Potential impact:* A 5 percent increase in utility costs is projected to increase overall utility costs by $145,000.

Other Expenditure Assumptions

Listed below are additional expenditure assumptions that remain unchanged year-over-year.

- the retiree health benefit contribution will remain at $1 million;
- the self-insurance annual contribution will remain at $100,000;
- the worker's compensation rate will remain at 1.283 percent; and
- the state unemployment insurance rate will remain at 0.05 percent.

7. FISCAL YEAR 2017-18 PROJECTED BUDGET

While college and District Office tentative budgets are not yet complete, it is possible to provide a high-level view of the District's Tentative Budget based upon historical actuals and current proposals by the Governor. As always, substantial changes may occur with the Governor's May Revision, and the District will adjust as necessary. As was discussed earlier, with nominal ongoing revenue being proposed, coupled with known cost increases, the projected Tentative Budget for the District contains a structural deficit of approximately $2.4 million, or 1.2 percent of the expenditure budget.

7.1 FY 2016-17 and FY 2017-18 Comparison

Table 7 shows a comparison between the projected actuals for FY 2016-17 and the projected Tentative Budget for FY 2017-18. As explained previously, the budget assumptions driving these figures will almost assuredly change after the May Revision. As was noted in Section 5.4, the projected actuals in revenue and expenses for FY 2016-17 include the receipt and subsequent transfer of the additional apportionment funds earned from borrowing into a non-operating account; this skews the revenues and expenses approximately $5.2 million more than they otherwise would be in FY 2016-17.

	FY 2016-17 Projected Actuals	FY 2017-18 Projected Tentative Budget	Increase/ (Decrease)
Funded Resident FTES	28,668	28,668	-
Revenues	$ 191,611,351	$ 189,383,730	($ 2,227,621)
Expenditures	192,083,895	191,762,675	(321,220)
Opening Fund Balance	27,846,085	27,373,541	(472,544)
Change in Fund Balance	(472,544)	(2,378,945)	n/a
Ending Fund Balance	$ 27,373,541	$ 24,994,596	($ 2,378,945)

Table 7

7.2 FY 2017-18 Projected Reserves

The reserves shown in Table 8 comprise the operating portion of the unrestricted general fund and tentatively project a FY 2017-18 ending reserve balance of $24,994,596. The table details the distribution of the projected FY 2017-18 ending reserve balance between designated and undesignated categories. College and District Office designations continue to be updated and will change by Tentative Budget.

	2017-18 Projected Tentative Budget
Designated College Reserves	1,238,834
Designated District Office Reserves	87,639
Subtotal, Site Designated Reserves[1]	**$ 1,326,473**
5% Contingency Reserve	9,604,195
5% Board Reserve	9,604,195
1% Minimum Location Reserves	1,710,364
Subtotal, Board Designated Reserves[2]	**$ 20,918,754**
Undesignated Districtwide Reserve	331,891
Undesignated College Reserves	1,894,701
Undesignated District Office Reserves	522,777
Subtotal, Undesignated Reserves[3]	**$ 2,749,369**
TOTAL RESERVES 6/30/18	**$ 24,994,596**

Table 8

1 Designated College and District Office Reserves: Deficit funding reserves and other long-term liabilities (load banking, vacation).

2 Board and Location Reserves: Board Reserve at 10 percent; site reserves at a minimum of 1 percent per Business Procedure 18.01.

3 Undesignated Reserves: *Estimated* reserves; largely determined by each site.

8. District Fiscal Trends

The District has a demonstrated history of fiscal prudence and conservative behavior. Even so, from FY 2010-11 through FY 2014-15 expenditures exceeded revenues; this resulted in a slow decline of the District's fund balance. After an uptick in FY 2015-16, mostly due to unrestricted for increasing the full-time faculty ratio frontloaded by the state, the fund balance is again anticipated to decline slightly in FY 2016-17, though less than originally budgeted. The change in fund balance year-over-year since FY 2010-11 within the unrestricted, operating fund is illustrated in Chart 1, with an estimate for FY 2016-17.

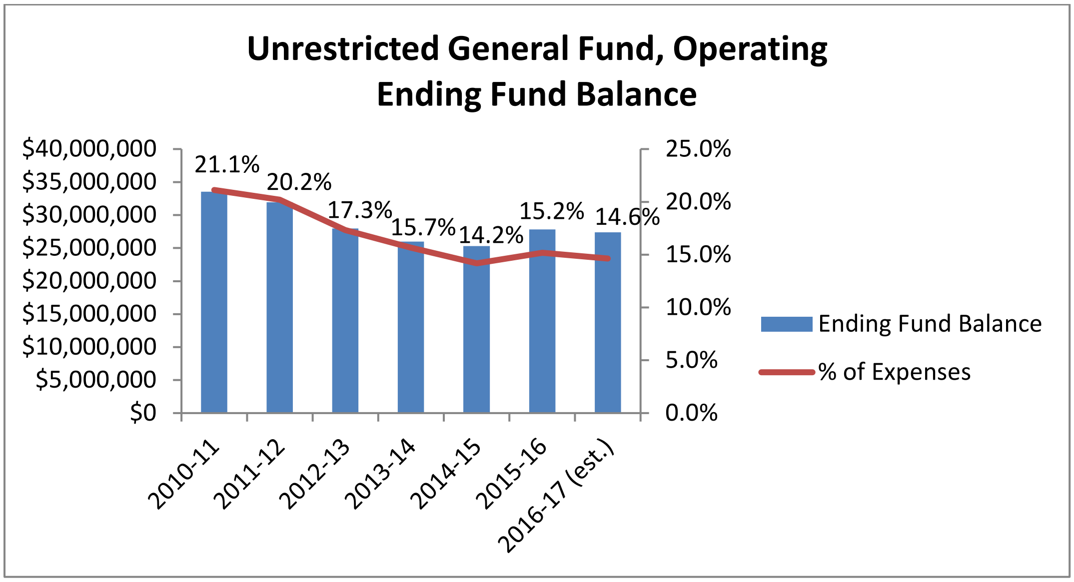
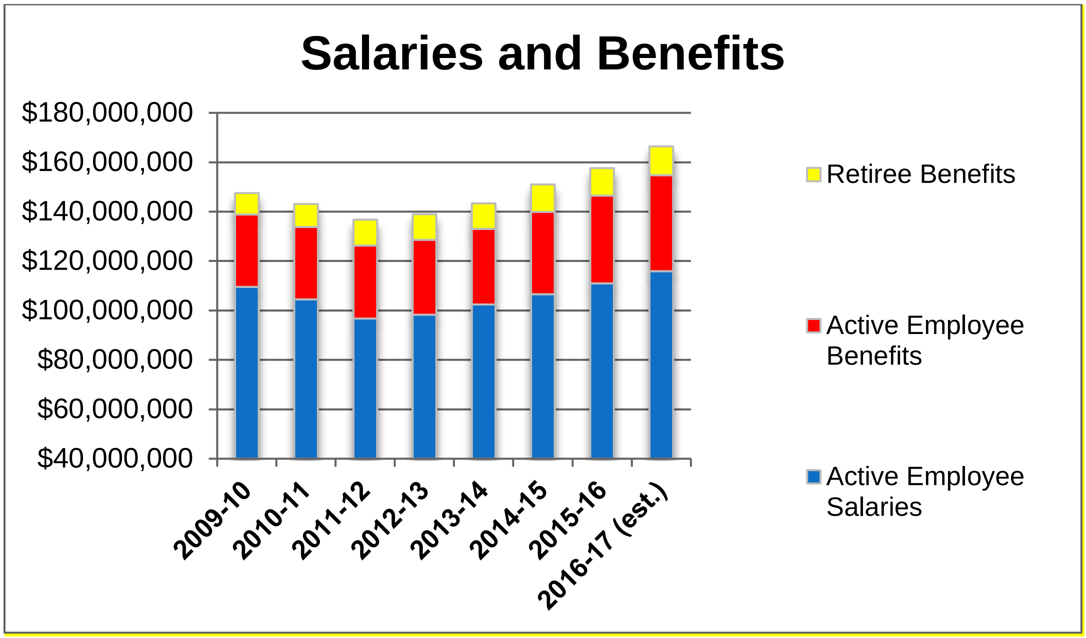


Chart 1

8.1 Salary and Benefit Trends

The District continues to see significant increases in the cost of providing benefits for active and retired employees. For active (current) employees, benefits include health benefits as well as employer-paid payroll taxes, such as CalPERS and CalSTRS contributions, FICA, Medicare, etc. For retirees, the cost is entirely for health benefits. Chart 2 shows the past seven years of actual salary and benefit costs along with a projection for FY 2016-17. Of note in Chart 2 is:

- salary costs have increased the past four years and are projected to be over $115 million in FY 2016-17, surpassing the previous fiscal year's peak of $111 million;
- total benefit costs have increased from $38 million in FY 2009-10 to an estimated $50 million in FY 2016-17, a 33 percent increase; and
- in FY 2009-10, for every dollar spent on salaries, an additional 35 cents was spent on benefits; however, in FY 2016-17 for every dollar spent on salaries, an additional 44 cents is spent on benefits. This is a 26 percent increase between FY 2009-10 and FY 2016-17.

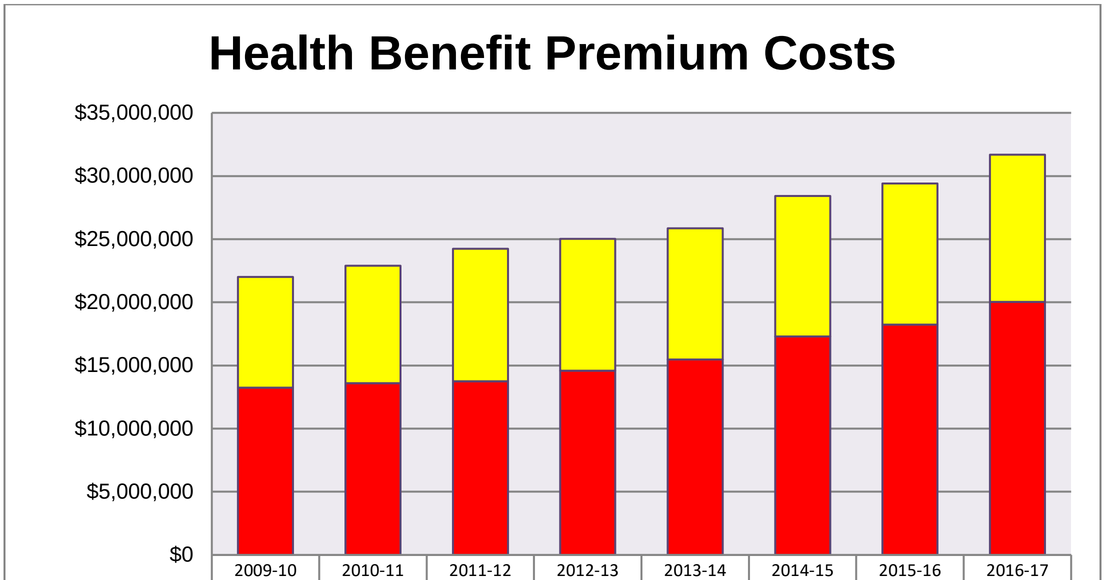


Cumulative Totals

2009-10:	$147.5 million (total benefits at 34.6% of salary)
2010-11:	$143.1 million (total benefits at 37.0% of salary)
2011-12:	$136.8 million (total benefits at 41.4% of salary)
2012-13:	$139.0 million (total benefits at 41.5% of salary)
2013-14:	$143.4 million (total benefits at 40.0% of salary)
2014-15:	$151.0 million (total benefits at 41.7% of salary)
2015-16:	$157.6 million (total benefits at 42.0% of salary)
2016-17:	$166.4 million (total projected benefits at 43.6% of salary)

Chart 2

By removing payroll taxes (CalPERS, CalSTRS, FICA, Medicare, etc.) from active employees and comparing only health benefit costs, the picture changes dramatically. Chart 3 shows the health premiums paid by the District on behalf of active and retired employees. Currently, retiree benefit expenses are approximately 37 percent of the total District-paid health premiums and 6.5 percent of total operating expenditures for the District.



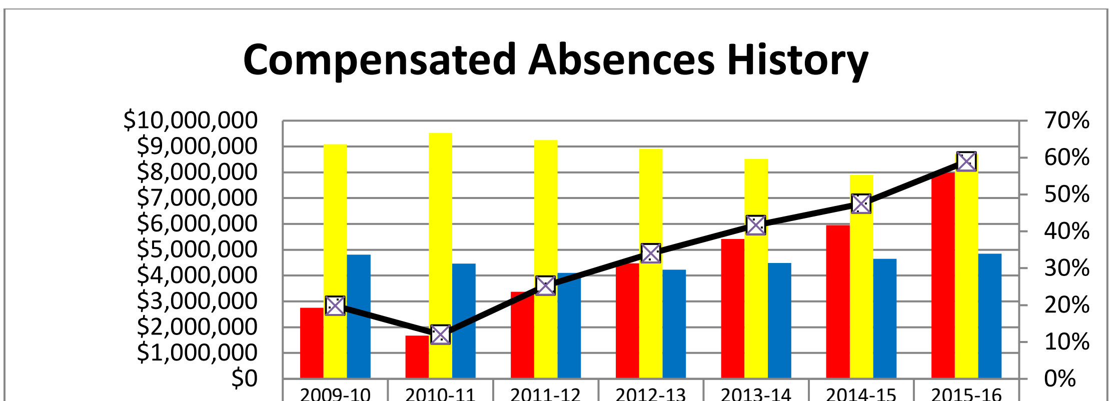
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Retirees	$8,751,165	$9,294,095	$10,476,622	$10,420,816	$10,374,198	$11,117,436	$11,178,084	$11,658,965
Active Employees	$13,245,803	$13,607,401	$13,749,185	$14,595,072	$15,480,708	$17,288,504	$18,235,877	$20,037,754

Chart 3

8.2 Compensated Absences Liability (Banked Load and Vacation Accrual)

Compensated absences within the District are comprised of two separate components: vacation accruals and load banking. Chart 4 shows a history of the District's compensated absences. Encouragingly, the unfunded liability at the end of FY 2015-16 is at a new low.

The District has dedicated substantial financial resources in recent years to buy down this liability. This dedication resulted in an increase in the fund balance from $1.67 million in FY 2010-11 to $7.98 million in FY 2015-16. More important is the ratio of funding in comparison to the total liability. In FY 2010-11, the District had $1.67 million to cover a liability of $13.98 million, a funding level of 11.7 percent. At the end of FY 2015-16, the District had $7.98 million to cover a liability of $13.54 million, a funding level of 58.9 percent. This history is illustrated in Chart 4.



	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Funded	$2,750,000	$1,674,980	$3,369,928	$4,471,099	$5,413,381	$5,951,275	$7,977,686
Load Bank Liability	$9,088,324	$9,521,011	$9,247,428	$8,914,401	$8,514,543	$7,895,382	$8,699,764
Vacation Liability	$4,816,184	$4,457,328	$4,104,747	$4,222,102	$4,494,282	$4,649,470	$4,841,771
% Funded	20%	12%	25%	34%	42%	47%	59%

Chart 4

9. NEXT STEPS

The Governor's revised budget will be released in mid-May 2017. With the legislature still to weigh in, significant changes are likely in the Governor's May Revision. The District's hope is that those changes will result in additional ongoing funds beyond the nominal amount provided by the Governor's proposals. Time permitting, those changes will be factored into the Tentative Budget presented to the Governing Board in June. The final state budget will almost certainly be enacted by June 30, 2017, providing ample time for District staff to prepare the final Adoption Budget to be presented to the Governing Board at its September 2017 meeting.

10. CONCLUSION

The major push for the District in FY 2017-18 is to chart a path towards FTES growth. As mentioned earlier, battling the headwinds of a strong labor market, which reduces demand for the District's services, presents significant challenges. These challenges compound the real financial issues of increasing employee costs, notably in the pension and health benefit areas. The inability to naturally expand and grow the District's FTES base exacerbates these issues, as growth dollars, a source of ongoing funding, have remained elusive. With a full academic year in which to report its FTES, the District is cautiously optimistic that the slow enrollment decline of the past several years will abate.

The District, like all community colleges, faces significant challenges in vital economic times. As the student population becomes more economically, culturally, ethnically, and educationally diverse, the District must become more innovative and better prepared to meet the needs of its changing population. In the months ahead, each college will prepare detailed budgets, maximizing available funds with an emphasis on awareness and outreach, student success and retention, and closing the participation and achievement gap in underserved groups. All should help attract and retain students, important goals on their own, but also vital to the District's fiscal viability.

Contra Costa Community College District

pathways to success

APPENDICES

A. SOUND FISCAL MANAGEMENT CHECKLIST
B. AUDIT FINDINGS FOR FY 2014-15 AND 2015-16
C. 2017-18 BUDGET DEVELOPMENT ASSUMPTIONS
D. THREE-YEAR BUDGET FORECAST
E. FIVE-YEAR EXPENDITURE TRENDS
F. DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS
G. GLOSSARY

APPENDIX A

SOUND FISCAL
MANAGEMENT CHECKLIST

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 of 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 their fiscal health. The System Office encourages districts to regularly complete the checklist with the Governing 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 decrease its fund balance by a nominal $472,000 approximately 2/10^{ths} of one percent of its revenue 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 and not budgeting them in an ongoing fashion. Most recently, in FY 2015-16, the District's ending balance increased.
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 2016-17, the District's budgeted on-going expenses are projected to be $472,000 more than on-going revenues, resulting in a small anticipated decrease in the District's fund balance.
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 $8.6 million to $27.8 million at the end of FY 2015-16. The District is very cognizant of its fund balance and recognizes the importance of maintaining it at a healthy level.

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, & FY 05-06, and revenue increases in FY 07-08, FY 08-09 and FY 10-11 due to restoration in FTES. More recent years have seen significant revenue increases from the state.
3. Enrollment		
Is this Area Acceptable?	**Yes**	
Has the District's enrollment been increasing or stable for multiple years?	Yes	The District exceeded the funding cap in FY 09-10, FY 10-11 and FY 11-12 due to statewide workload reductions. The past five fiscal years have seen FTES remain stable, with less than 1 percent variance each year as compared to the five-year average when measuring by the academic year.
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, July, and October.
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, FY 08-09, FY 12-13, FY 14-15, and FY 16-17. The District exceeded its funded FTES in FY 09-10, earned all available growth in FY 10-11 and FY 15-16, and exceeded its cap in FY 11-12 and FY 13-14.
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	The District has no TRANS.
6. Bargaining Agreements		
Is this Area Acceptable?	**Yes**	
Has the District settled bargaining agreements within new revenue sources during the past three years?	Yes	The District gave a 5% salary increase in FY 15-16, only the second salary increase since FY 08-09. Approved contracts are in place for United Faculty through FY 16-17 and for Local 1 (classified staff) through FY 17-18.
Did the District conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement?	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.
Did the District correctly identify the related costs?	Yes	The District has seen the salary expenses increase commensurate with the analysis that was done prior to implementation.
Did the District address budget reductions necessary to sustain the total compensation increase?	Yes	The District enacted the salary increase after an analysis of available revenue in comparison to expected expenses.
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 2015-16, the percentage of the General Fund that was expended for salaries and benefits was 88%. In 2016-17, the percentage of the General Fund budgeted for salaries and benefits is 88%.
8. Internal Controls		
Is this Area Acceptable?	**Yes**	
Does the District have adequate internal controls to insure the integrity of the general ledger?	Yes	There were adequate controls to insure the integrity of the 2015-16 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?	Yes	The District has strong internal controls in place and always looks for improvement. The District recently developed and approved policies and procedures on the safeguarding of its assets. No findings were present during the external audit.

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 2015-16 records were complete prior to the District audit and the close of the fiscal year was 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 Administrative Service'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	Unfortunately, this has little meaning with the recent GASB pension changes. Most long term debt is held in the 2002, 2006, and 2014 bonds. However, the long-term debt associated with the bond programs is paid through tax levies and not truly District debt. Also with the implementation of

		GASB 68, the District must now put its share of pension liabilities on its balance sheet. Load banking and vacation unfunded liabilities have decreased from $12.3 million to $5.6 million based upon aggressive District funding.
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 timely 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 March 2015. The District's actuarially accrued liability is at $172 million, down from the prior study. A new study is in progress.
Does the District have a plan for addressing the retiree benefits liabilities?	Yes	The District selected a financial advisor, appointed a Retirement Board of Authority, prepared a substantive plan, and has funded between $5.7 - $9.1 million each year since FY 08-09 into an irrevocable trust. There is a current market value of over $89 million within the irrevocable trust and further funds have been identified and set-aside to continue funding the 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 District recently hired a new Chancellor, an individual with over 25 years of experience in California higher education. The District's Executive Vice Chancellor has been with the District for over 15 years; a former Executive Vice Chancellor, with over 20 years' experience with the District, is now the President of one of the District's colleges. Another college President has over 5 years in his role. The Governing Board has five members, one elected in January 2010; two elected in November 2012; one elected in November 2014, and one who is completing the term of a recently deceased Board member.

APPENDIX B

AUDIT FINDINGS FOR FY 2014-15 AND FY 2015-16

APPENDIX B
AUDIT FINDINGS FOR FY 2014-15 AND 2015-16

The annual financial audit for the District conducted by James Marta & Co. for FY 2014-15 reported a compliance audit finding within Disabled Student Program Services; a signed application was missing from a sampled file. The subsequent audit for FY 2015-16 resulted in no 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.

Audit Findings for FY 2014-15

2014-15 Audit Findings	Description of Finding	District Action	Responsible Managers	Target Date of Completion	Results
2015-01 Compliance	The DSPS office did not have a signed application on file for one Disabled Student Programs and Services (DSPS) participant.	DSPS office followed up with student and received necessary paperwork; in the future, all files will be reviewed to ensure proper documentation is collected.	DSPS Manager	Immediately	Implemented

Audit Findings for FY 2015-16
There were no audit findings in FY 2015-16

APPENDIX C

FY 2017-18 BUDGET DEVELOPMENT ASSUMPTIONS

APPENDIX C

2017-18 OPERATING BUDGET DEVELOPMENT ASSUMPTIONS
Key Budget Assumptions: 1.48% COLA; $519,200 Base Increase; 0.0% FTES Adjustment; 6.78% H/W Increase
Unrestricted General Fund

Updated: 3/1/2017

FTES		15/16 Actuals	16/17 Budget	17/18 Tentative Budget Assumptions
	Resident Credit rate	$ 5,004.25	$ 5,004.25	$ 5,078.32
	Resident Non-Credit rate	$ 3,009.20	$ 3,009.20	$ 3,053.73
	Resident Credit target	28,288.84	28,589.97	28,589.97
	Resident Non-Credit target	77.33	78.03	78.03
	Resident Credit - funded	28,288.84	28,589.97	28,589.97
	Resident Non-Credit - funded	77.33	78.03	78.03
	Non-Resident Target	2,750.00	2,750.00	2,750.00
	Resident Unit Fee	$ 46.00	$ 46.00	$ 46.00
	Non-Resident Unit Fee	$ 205.00	$ 211.00	$ 228.00

Revenue Assumptions		15/16 Actuals	16/17 Budget	17/18 Tentative Budget Assumptions
1.	**FTES (Resident)**	28,366.17	28,668.00	28,668.00
2.	**FTES (Non-Resident)**	2,750.00	2,750.00	2,750.00
	Revenue (8.1% rate increase in 2017-18)	$13,270,577	$13,659,405	$14,759,926
3.	**COLA**	1.02%	0.00%	1.48%
	Incremental Revenue	$1,293,687	-	$2,120,932
4.	**Lottery, unrestricted**	$140	$144	$144
	Total Revenue	$4,379,165	$4,663,787	$4,151,663
5.	**Lottery, Prop 20 Restricted**	$48	$48	$48
	Total Revenue	$1,494,650	$1,489,548	$1,383,888
6.	**Deficit (property taxes/enrollment fees)**	0.0%	0.5%	0.5%
	Reduction in Revenue	-	($785,556)	($808,981)
7.	**FTES Adjustment**	0.00%	1.06%; 301 net increase	0.00%
	Incremental Revenue	-	$1,509,037	-
8.	**Base Allocation Increase**	$7,024,596	$2,014,473	$519,200

Expenditure Assumptions		15/16 Actuals	16/17 Budget	17/18 Tentative Budget Assumptions
1.	**Salary Increase**	5%	0%	0%[1]
2.	**Step/Column Annual Average Increase**	1.2%	1.2%	1.2%
3.	**Health and Welfare (H&W)**	8.91%	5.02%	6.78%
	Active Employees	$19,299,337	$20,156,221	$ 21,522,813
	Retirees	$11,178,084	$11,538,017	12,119,530
		$ 30,477,421	$ 31,694,238	$ 33,642,343
4.	**Payroll Taxes**			
	PERS Rate	11.847%	13.888%	15.800%
	PERS Safety Rate (Police)	26.650%	26.650%	25.610%
	STRS Rate	10.730%	12.580%	14.430%
	Worker's Compensation Rate	1.410%	1.283%	1.283%
	State Unemployment Insurance (SUI) Rate	0.050%	0.050%	0.050%
5.	**Districtwide Assessments and Other Expenses**			
	Utilities (5% Increase over CY projections)	$ 3,712,826	$ 3,898,466	$ 4,042,500
	Property & Liability Insurance	1,275,095	1,350,000	1,350,000
	Student Accident Insurance/Student Assistance Program	322,453	330,000	330,000
	IT Maintenance Agreements	1,421,428	1,450,000	1,160,000
	Retiree Health Benefit Annual Contribution	1,000,000	1,000,000	1,000,000
	Faculty Sabbaticals	419,471	471,529	480,960
	Legal Costs	388,254	400,000	400,000
	Election Costs (Two local elections)	-	350,000	100,000
	Audit	167,400	192,000	175,000
	SUI Experience Charges	146,977	150,000	150,000
	Self-Insurance Annual Contribution	100,000	100,000	100,000

[1] Any salary increases for FY 2017-18 will be determined through the collective bargaining process

APPENDIX D

THREE-YEAR BUDGET FORECAST

APPENDIX D
THREE-YEAR BUDGET FORECAST

Contra Costa Community College District
Three Year Budget Forecast*
2017-2018 Fiscal Year and Beyond

Unrestricted, Ongoing General Fund

	0% Growth, 1.48% COLA, Base Allocation Increase 28,668 FTES **FY 2017-18**	*1% Growth, 2% COLA 28,955 FTES* **FY 2018-19**	*2% Growth, 2% COLA 29,534 FTES* **FY 2019-20**
Base Revenue	$ 189,383,730	$ 189,383,730	$ 193,811,870
COLA and Base Allocation Revenue	-	2,941,292	3,060,110
Growth Revenue	-	1,486,848	3,059,592
Revised Revenue	**$ 189,383,730**	**$ 193,811,870**	**$ 199,931,571**
Budgeted Ongoing Expenses	$ 191,762,675	$ 191,762,675	$ 197,108,122
Step/Column Increases	-	1,320,000	1,335,840
Health Benefits Cost Increases	-	1,553,859	1,631,552
STRS/PERS Increases	-	2,471,588	2,564,701
Revised expenditures	**$ 191,762,675**	**$ 197,108,122**	**$ 202,640,216**
Revenue less Expense	**$ (2,378,945)**	**$ (3,296,253)**	**$ (2,708,645)**
Potential Expenditure Reductions	-	-	-
Beginning fund balance	$ 27,373,541	$ 24,994,596	$ 21,698,343
Estimated Ending Balance	**24,994,596**	**21,698,343**	**18,989,699**
Adjustment to Fund Balance	**$ (2,378,945)**	**$ (3,296,253)**	**$ (2,708,645)**

*Will change as better data obtained
Please note the figures are estimates based on assumptions and *will* change

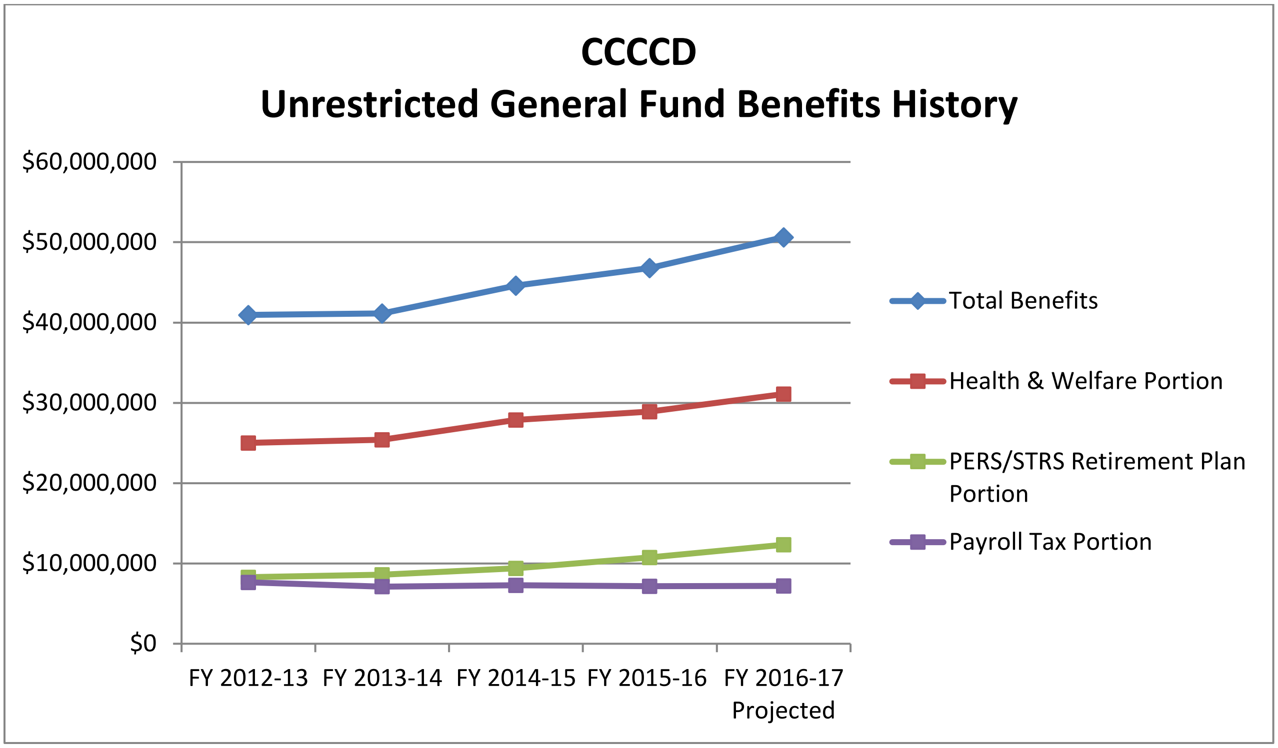
<u>Key Assumptions</u>

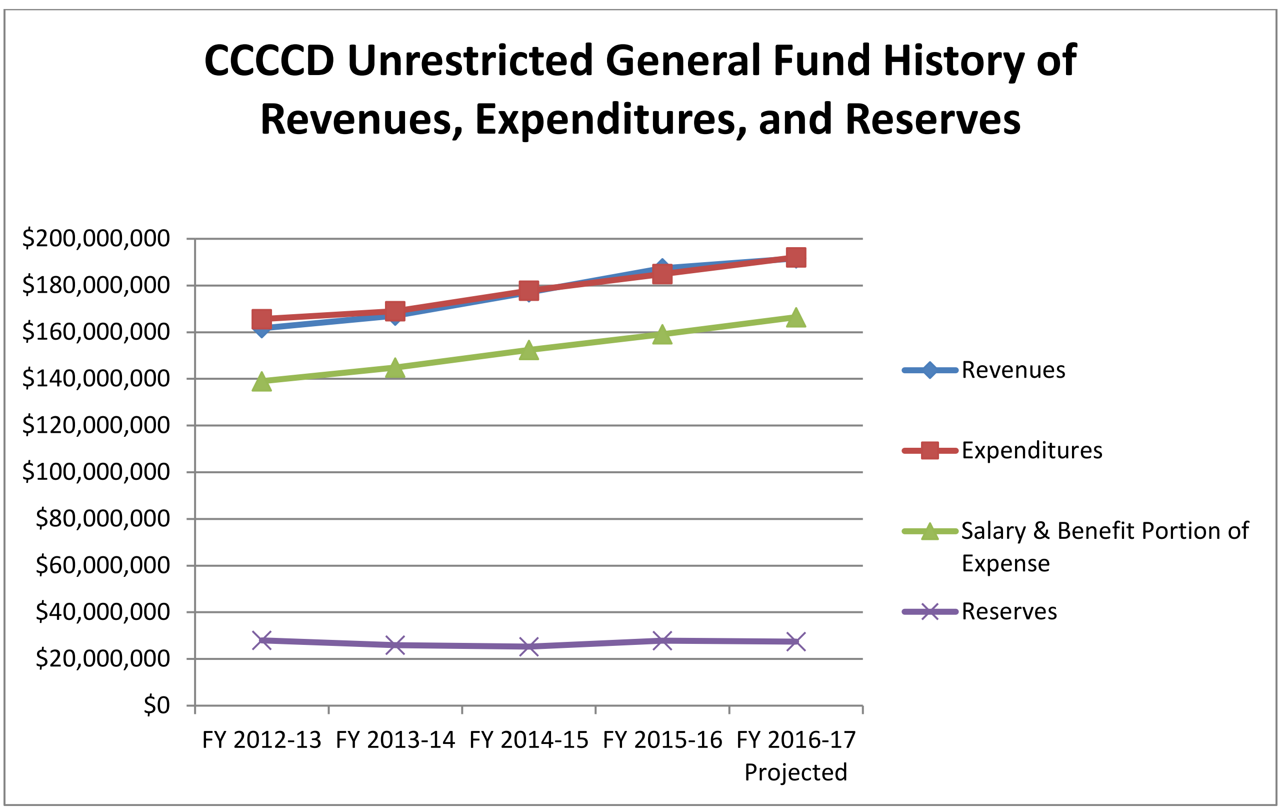
1% Growth in FY 2018-19 and 2% Growth in FY 2019-20
2% COLA in FY 2018-19 and 2% COLA in FY 2019-20
Step/Column increases at 1.2% each year
Health Benefit increases in FY 2018-19 and FY 2019-20 at 5% each year

APPENDIX E

FIVE-YEAR EXPENDITURE TRENDS

Appendix E
Five-Year Expenditure Trends





APPENDIX G

DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS

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The District participates in two defined benefit pension programs for eligible employees: the California Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS). Recently, both pension programs released scheduled contribution rate increases out to FY 2020-21. While the CalPERS rates are subject to change, the rates for CalSTRS are in statute. These rate increases are considerable and put significant pressure on the District's budget.

Table 1 shows the rate increases the District is facing for the two pension programs out to FY 2020-21. If these rates become reality, the District is facing pension contributions rising from $8.2 million in FY 2013-14 to greater than $21.6 million in FY 2020-21. Cumulative employer-paid increases out to FY 2020-21, assuming the contribution rates had stayed flat at the FY 2013-14 level, come to $41.6 million.

CalSTRS and CalPERS Combined Employer Contribution Forecast

CalSTRS	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
STRS Payroll *	$ 56,955,785	$ 58,801,340	$ 59,989,739	$ 61,189,534	$ 62,413,325	$ 63,661,592	$ 64,934,824	$ 66,233,520
Contribution rate	8.250%	8.880%	10.730%	12.580%	14.430%	16.280%	18.130%	19.100%
Contribution required	$ 4,698,850	$ 5,221,559	$ 6,436,899	$ 7,697,643	$ 9,006,243	$ 10,364,107	$ 11,772,684	$ 12,650,602

CalPERS	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
PERS Payroll *	$ 30,964,001	$ 32,047,821	$ 32,696,303	$ 33,350,229	$ 34,017,234	$ 34,697,579	$ 35,391,531	$ 36,099,362
Contribution rate	11.442%	11.771%	11.847%	13.889%	15.800%	18.700%	21.600%	24.900%
Contribution required	$ 3,542,901	$ 3,772,349	$ 3,873,531	$ 4,629,012	$ 5,374,723	$ 6,488,447	$ 7,644,571	$ 8,988,741
Total Contributions	**$ 8,241,751**	**$ 8,993,908**	**$ 10,310,430**	**$ 12,326,655**	**$ 14,380,966**	**$ 16,852,554**	**$ 19,417,255**	**$21,639,343**

* Payroll is assumed to increase 2.00% each year, compounded. Past fiscal years show actual figures.

Table 1

In order to pay for these substantial increases, significant ongoing funds from the state will need to be made available. Table 2 shows the COLA needed each year to "breakeven" on the pension increases; the table assumes that in each prior year the breakeven COLA is achieved. Of note, the 1.43 percent breakeven COLA needed for FY 2017-18 is nearly identical to the 1.48 percent COLA being proposed. This means the entirety of the proposed in FY 2017-18 COLA is consumed by the CalSTRS and CalPERS increases.

	CalSTRS Increase	**CalPERS Increase**	**Total Increase**	**% of Total Payroll**	**Breakeven COLA**
FY 17-18	1,308,600	745,711	2,054,311	1.78%	1.43%
FY 18-19	1,357,864	1,113,724	2,471,588	2.09%	1.70%
FY 19-20	1,408,577	1,156,124	2,564,701	2.13%	1.73%
FY 20-21	877,918	1,344,170	2,222,088	1.81%	1.47%

Table 2

Unless downward movement is made to the defined benefit contribution rates or additional help and support from the state are given, the District strongly believes these rate increases will push its total benefits package (payroll taxes, pension contributions and health benefits) from the current 44 percent of salary to north of 50 percent of salary. Should that occur, the salary and benefits of the District will consume greater than 90 percent of its budget, leaving precious few resources available. Without a doubt, the total compensation costs for permanent employees are rising significantly.

District staff will continue to monitor the pension contribution rates and inform the Governing Board on any developments.

APPENDIX H

GLOSSARY

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GLOSSARY

50 Percent Law
Section 84362 of the *Education Code*, commonly known as the Fifty Percent Law, requires that a minimum of 50% of the District's current expense of education be expended during each fiscal year for "salaries of classroom instructors." Salaries include benefits and the salaries of instructional aides.

Accounts Payable
A short-term liability account reflecting amounts due to others for goods and services received prior to the end of an accounting period (includes amounts billed, but not paid).

Accounts Receivable
An asset account reflecting amounts due from others for goods and services provided prior to the end of an accounting period (includes amounts advanced but not repaid).

Activity Code
A set of institutional functions or operations related to an academic discipline or a grouping of services.

Administrator
For the purpose of *Education Code* Section 84362, "Administrator" means any employee in a position having significant responsibilities for formulating district policies or administering district programs.

Allocation of Costs
Districts regularly incur costs that are not exclusively for one program. These costs generally must be assigned to the programs incurring such costs, using an acceptable allocation method.

Apportionments
Allocation of state or federal aid, local taxes or other moneys among school districts or other governmental units.

Capital Outlay
Capital outlay expenditures are those which result in the acquisition of or addition to fixed assets. They are expenditures for land or existing buildings, additions to buildings, remodeling of buildings, or initial or additional equipment. Construction-related salaries and expenses are included.

Capital Projects Funds
The fund accounts for financial resources to be used for the acquisition or construction of capital outlay items.

Categorical Funds
Money from the state or federal government granted to qualifying districts for special programs, such as DSPS, EOPS or Vocational Education. Expenditure of categorical funds is restricted to the fund's particular purpose. The funds are granted to districts in addition to their general apportionment.

Certificates of Participation (COPs)
COPs are used to finance the lease/purchase of capital projects. Essentially, they are the issuance of shares in the lease for a specified term.

Chart of Accounts
A systematic list of accounts applicable to a specific entity. The Chart of Accounts consists of funds, subfunds, cost centers, activities and object codes.

Collective Bargaining - SB 160 (1975)
A law passed by the California legislature which sets the manner and scope of negotiations between school districts and employee organizations. The law also mandates a regulations board. (See PERB)

Compensated Absences
Absences, such as vacation and load banking, for which employees must be paid. The term does not encompass severance or termination pay, postretirement benefits, deferred compensation or other long-term fringe

benefits, such as group insurance and long-term disability pay.

Current Assets
Assets that are available to meet the cost of operations or to pay current liabilities.

Debt Service Funds
Funds used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Disabled Student Programs and Services (DSP&S)
The purpose of these special programs and services is to integrate the disabled student into the general college program; to provide educational intervention leading to vocational preparation, transfer or general education; and to increase independence or to refer students to the community resources most appropriate to his or her needs.

Educational Administrator
Education Code Section 87002 and *California Code of Regulations* Section 53402(c) define "educational administrator" as an administrator who is employed in an academic position designated by the governing board of the district as having direct responsibility for supervising the operation of or formulating policy regarding the instructional or student services program of the college district. Educational administrators include, but are not limited to, chancellors, presidents, and other supervisory management employees designated by the governing board as educational administrators.

Enterprise Funds
A subgroup of the proprietary Funds Group used account for operations when the governing board has decided either that the total cost of providing goods and services on a continuing basis (expenses including depreciation) be financed or recovered primarily through user charges; or that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Extended Opportunity Programs and Services (EOPS)
Amounts apportioned for the purpose of providing allowable supplemental services through EOPS to encourage enrollment of students handicapped by language, social and/or economic disadvantages.

Fiscal Year
Twelve calendar months; in California, it is the period beginning July 1 and ending June 30. Some special projects use a fiscal year beginning October 1 and ending September 30, which is consistent with the federal government's fiscal year.

Fixed Assets
Property of a permanent nature having continuing value such as land, buildings, machinery, furniture, and equipment with a $5,000 threshold.

Full-time Equivalent (FTE) Employees
Ratio of the hours worked based upon the standard work hours of one full-time employee.

Full-time Equivalent Students (FTES)
An FTES represents 525 class (contact) hours of student instruction/activity in credit and noncredit courses. The number 525 is derived from the fact that 175 days of instruction are required each year, and students attending classes 3 hours per day for 175 days will be in attendance 525 hours. An FTES is currently worth $4,636 in apportionment funding.

Districts complete Apportionment Attendance Reports (CCFS-320) and Apprenticeship Attendance Reports (CCFS-321) to report attendance. These are carefully reviewed by external auditors. The importance of these reports lies in the fact that they serve as the basis for State General Apportionment allocation to community college districts.

Fund
An independent fiscal and accounting entity with a self-balancing set of accounts for recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein.

Fund Balance
The difference between fund assets and fund liabilities of governmental and similar trust funds.

Gann Limitation
A ceiling on each year's appropriations supported by tax dollars. The limit applies to all governmental entities, including school districts. The base year was 1978-79. The amount is adjusted each year, based on a price index and the growth of the student population.

General Fund
The fund used to account for the ordinary operations of the district. It is available for any legally authorized purpose not specified for payment by other funds.

Generally Accepted Accounting Principles (GAAP)
Uniform minimum standards and guidelines for financial accounting and reporting.

General Purpose Tax Rate
The District's tax rate, determined by statute as interpreted by the County Controller. The base rate was established in 1978, after the passage of Proposition 13, and changes have occurred based on a complex formula using tax rate areas.

Grants
Contributions or gifts of cash or other assets from another government or private organization to be used or expended for a specific purpose, activity or facility.

Interfund Transfers
Money that is taken from one fund and added to another fund without an expectation of repayment.

Intrafund Transfer
The transfer of moneys within a fund of the district.

Irrevocable Trust
A trust that can't be modified or terminated without the permission of the beneficiary. The grantor, having transferred assets into the trust, effectively removes all of his or her rights of ownership to the assets and the trust. The District currently has an irrevocable trust to fund retiree health benefits.

Nonresident Tuition
A student who is not a resident of California is required, under the uniform student residency requirements, to pay a tuition fee as prescribed by ECS 76140. The fee shall not be less than the average statewide cost per student.

Objects of Expenditure
Objects of expenditure are articles purchased or services obtained by a district, such as:

- **Certificated Salaries (object series 51000)**
  Includes expenditures for full-time, part-time and prorated portions of salaries for all certificated personnel.

- **Classified Salaries (object series 52000)**
  Includes expenditures for full-time, part-time and prorated portions of salaries for all classified personnel.

- **Employee Benefits (object series 53000)**
  Includes all expenditures for employer's contributions to retirement plans, and for health and welfare benefits for employees or their dependents, retired employees and Governing Board members.

- **Supplies (object series 54000)**
  Includes supplies and materials, typically with a limited lifespan.

- **Other Operating Expenses (object series 55000)**
  Includes expenditures for consultants, travel, conferences, membership dues, insurance, utilities, rentals, leases, elections, audits, repair and maintenance contracts, and other contracted services.

- **Capital Outlay (object series 56000)**
  Includes expenditures for sites, improvement of buildings, books and media for libraries and new equipment.

- **Other Outgo (object series 57000)**
  Includes expenditures for retirement of debt, interfund transfers, other transfers, appropriations for contingencies, and student financial aid.

Other Post-Employment Benefits (OPEB)
Other post-employment benefits (OPEB) are employee benefits other than pensions that are received after employment ends, typically medical benefits.

Proposition 13 (1978)
An initiative amendment passed in June 1978 which added Article XIIIA to the California Constitution. Tax rates on secured property are restricted to no more than 1% of full cash value. The measure also defines assessed value and the voting requirements to levy new taxes.

Proposition 98 (1988)
An amendment to the California Constitution establishing minimum funding levels for K-14 education and changing some of the provisions of Proposition 4 (Gann limit).

Proposition 111 (1990)
A Senate Constitutional Amendment which modified Proposition 98 and made numerous changes to the way the appropriations limit is calculated and how the minimum funding guarantee for public schools and community colleges is determined; this includes the appropriations limit formula, the K-14 education funding guarantee and the allocation of excess revenues.

Public Employees' Retirement System (PERS)
State law requires school district classified employees, school districts and the State to contribute to the fund for full-time classified employees.

Public Employment Relations Board (PERB)
Established to regulate collective bargaining between school districts and employees. Formerly called EERB.

Reserves
Funds set aside to provide for estimated future expenditures or deficits, for working capital or other purposes. Designated reserves are funds set aside for a specific purpose while undesignated reserves are available for appropriation. All reserves are one-time in nature.

- **Board 5% Reserve**
  Per Board Policy 5033, a 5% Board reserve shall be set aside to address significant opportunities that present themselves through the year and covers the minimum prudent standard set by the State Chancellor's Office. This is calculated on the ongoing, operating expenditure budget of the District, not including interfund or intrafund transfers out.

- **Board 5% Contingency Reserve**
  Per Business Procedure 18.01, a 5% contingency reserve shall be set aside to address significant opportunities that present themselves throughout the year and covers the minimum prudent standard set by the State Chancellor's Office. This is calculated on the ongoing, operating expenditure budget of the District, not including interfund or intrafund transfers out.

State Teachers' Retirement System (STRS)
State law requires that school district employees, school districts, and the State, contribute to the fund for full-time certificated employees.

Student Financial Aid Funds
Funds designated to account for the deposit and direct payment of government-funded student financial aid. The following are the various types of financial aid:

- Federal Aid:
  - Pell Grants
  - Supplemental Educational Opportunity Grant (SEOG)
  - Perkins
- State Aid:
  - EOPS (Extended Opportunity Programs and Services)
  - CAL Grant

Taxonomy of Programs (TOP)
This was formerly called Classification of Instructional Disciplines. Districts are required for State purposes to report the expenditures by categories identified in the CCFS-311. The major categories are:

- Instructional
- Instructional Administration
- Instructional Support Services
- Admissions and Records
- Counseling and Guidance
- Other Student Services
- Operations and Maintenance
- Planning and Policy Making
- General Institutional Support
- Community Services
- Ancillary Services
- Property Acquisitions
- Long-term Debt
- Transfers
- Appropriations for Contingencies

Tax and Revenue Anticipation Notes (TRANs)
These are issued to finance short-term cash flow needs. The notes are paid off within a 13-month period using the proceeds of current fiscal year taxes.

Useful Life
The period of time that an asset is of physical useful value. It is established primarily for depreciation and insurance purposes.

Weekly Student Contact Hours (WSCH)
The number of class hours each course is regularly scheduled to meet during a week, inclusive of holidays, multiplied by the number of students actively enrolled in the course.