STUDY SESSION

DEVELOPMENT OF THE 2018-19 DISTRICT BUDGET

APRIL 25, 2018

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

STUDY SESSION
DEVELOPMENT OF THE
2018-19 DISTRICT BUDGET

AGENDA

I. Review of FY 2017-18 budget status and FY 2018-19 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.

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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 Section 70901 and Title 5 Section 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 five percent 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; 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, 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 five percent of the unrestricted general fund budgeted expenditures for the fiscal year: an additional five 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; and
- reflect improvement in productivity at all levels; and be developed within a multi-year plan.

2. CONTRA COSTA COMMUNITY COLLEGE DISTRICT
2017-2018 GOVERNING BOARD GOALS

The Governing Board will respond to four broad goals over the next two years as it strives to realize its vision of excellence in learning and equitable student success and completes the District's five-year strategic plan. These goals are fully aligned with the District's mission and values. The priorities of the Board for this planning period are designed to contribute to the accomplishment of the goals in the *2014-19 District Strategic Plan*.

DISTRICTWIDE GOAL	DISTRICTWIDE OBJECTIVE	BOARD GOAL	MEASURABLE OUTCOME
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**	**1.1 Conduct activities that improve student performance in areas included in the Student Success Scorecard over time.**	**The Board will monitor the progress of the colleges toward improving their performance on the annual Student Success Scorecard.**	**The Board will receive a public presentation and discuss the performance of each college in the district on the annual Student Success Scorecard.**
	1.2 Provide student support that focuses on student engagement and excellence in service.	**The Board will work to ensure adequate resources for the colleges in support of student success.**	**The Board will receive a public presentation and discuss the District budget and specifically of items related to student success.**

DISTRICTWIDE GOAL	DISTRICTWIDE OBJECTIVE	BOARD GOAL	MEASURABLE OUTCOME
community, student feedback, and other information in order to improve student outcomes.	1.3 Support high-quality distance education as an option for increasing access and promoting student success.	A Board-level conversation regarding distance education and student success will be instituted.	The Board will receive a public presentation and discuss the distance education strategic plan.
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.	The Board will secure a report from each college on their educational partnerships.	The Board will receive a public presentation and discuss college reports on educational partnerships.
	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.	The Board will review the current business, industry and community partnerships and the spending plan for state workforce dollars as part of the annual budgeting process.	The Board will receive a public presentation and discuss the District's workforce development activities and partnerships with business, industry and the community.
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	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.	The Board will undertake a facilitated annual evaluation process and seek outside support for continuous improvement of Board operation. Further, the Board will review and ultimately approve a process for the updating of the District's Strategic Plan in calendar 2018.	The Board will have completed the facilitated annual Board evaluation, and begun the process of revising the District's Strategic Plan.

DISTRICTWIDE GOAL	DISTRICTWIDE OBJECTIVE	BOARD GOAL	MEASURABLE OUTCOME
learning and improve student success.	**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.**	**The Board will monitor human resources issues that have an impact on workforce diversity.**	**The Board will receive a public presentation and discuss the current characteristics of the CCCCD workforce.**
	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.	**The Board will ensure the District has various plans for professional development of employees that include addressing the diverse needs of the district's students.**	**The Board will receive a public presentation and discuss the professional development plans and resources for faculty, staff and managers of the district.**
	3.4 Expose employees at all levels to opportunities that enhance their knowledge, skills, and abilities to identify and develop emerging and promising practices.	**The Board will ensure that professional development opportunities continue to be offered to employees.**	**The Board will receive a public presentation and discuss employee participation in professional development activities.**
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 distinct assets of each institution as well as the unique power of their combined efforts to strategically tackle challenges, increase resource efficiency,**	**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.**	**The Board will utilize the annual budget review process to assess the efficiency of the colleges and the district and to evaluate the appropriate expenditures related to providing students high quality instruction and services.**	**The Board will receive a public presentation and ultimately approve the annual district budget.**
	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.	**The Board will monitor District actions to improve resource sustainability.**	**The Board will receive a public presentation and discuss a report on sustainability in a public meeting.**

DISTRICTWIDE GOAL	DISTRICTWIDE OBJECTIVE	BOARD GOAL	MEASURABLE OUTCOME
and better serve our students.	**4.3 Practice fiscal prudence in order to ensure financial integrity and stability.**	**The Board will monitor and provide guidance on the collective bargaining process to ensure both fair and equitable treatment of employees and fiscal stability for the district.** **The Board will receive regular reports on college and districtwide enrollment in order to monitor the fiscal stability of the district and ensure the delivery of educational programs and services to students.**	**The Board will receive a public presentation and approve collective bargaining agreements as required.** **The Board will receive a public presentation and discuss regular enrollment reports.**
	4.4 Diversify sources of revenue.	**The Board will consider all revenue sources of the district as well as other potential opportunities.**	**The Board will receive a public presentation and review the District's revenue as part of the annual budgeting process, and at other times as appropriate.**
	4.5 Provide a safe physical environment that is conducive to learning.	**The Board will monitor seismic upgrades to high risk district buildings continue through planning and construction.** **The Board will monitor the District's preparedness for emergency situations.**	**The Board will receive a public presentation and discuss facility upgrades related to seismic concerns.** **The Board will receive a public presentation and discuss Districtwide emergency preparedness.**

3. FISCAL YEAR 2018-19 BUDGET DEVELOPMENT CALENDAR

The following is a listing of the actions to be undertaken in the development of the budget for Fiscal Year 2018-19. 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

December

- Chancellor's Cabinet (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 and prior year Apportionment Recalculation reports are issued by the State System Office
- District develops preliminary revenue projections based on tentative budget FTES targets, known and assumed changes in other revenue or cost variables, and provides colleges with their estimated budget allocation and personnel costs
- Tentative budget assumptions are updated and reviewed with location Business Officers Chancellor Advisory Team (CAT), Cabinet and District Governance Council (DGC)

April/May/June

- Budget Forums are conducted at all District locations
- Cabinet reviews FTES projections and revises, as necessary, all growth targets
- Governing Board holds public study session on Budget
- Colleges, District and Districtwide Services provide expenditures to the District to start development of Tentative Budget
- Colleges and District provide completed budget template to the District to start compilation of the Tentative Budget
- Cabinet, Faculty Senate Coordinating Council (FSCC) and DGC review the Tentative Budget
- The Tentative Budget is submitted to Governing Board for approval
- All locations develop preliminary operational adoption budgets

July

- Final adoption budget assumptions are updated and reviewed with location Business Officers, CAT, Cabinet and DGC
- District finalizes adoption budget assumptions

August

- Colleges and District provide completed budget template to the District to start compilation of the Adoption Budget
- Calculations are completed for the prior year to determine fund balances and carryover funds
- District compiles the Final Adoption Budget

September

- Newspaper publications are notified of the availability of the Adoption Budget and appropriations (Gann) 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 and appropriations (Gann) limit presented

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

4. FISCAL YEAR 2017-18 UPDATE

In September 2017, the Governing Board adopted the FY 2017-18 budget, which included $6.5 million in additional ongoing revenue for the District. A COLA of 1.56 percent ($2.3 million) and an increase in base allocations ($4.2 million) accounted for the additional operating dollars. Incorporating this revenue into the budget produced an operating surplus of $2.1 million, approximately 1.1 percent of the total expenditure budget. Also of note, with the District's continued enrollment struggles, available, ongoing growth dollars provided by the state of approximately $1.5 million was not earnable.

The $6.5 million increase in ongoing revenue covered the escalating expenses the District absorbed with the CalSTRS rate rising from 12.58 percent to 14.43 percent ($1.3 million year-over-year operating cost increase to the District) and CalPERS rising from 13.89 percent to 15.53 percent ($700,000 year-over-year operating cost increase to the District). In addition, the increase in ongoing revenue also covered the $2.2 million rise in District-paid health benefit costs.

Recognizing the District's strong financial position but still cognizant of future uncertainty, the Governing Board approved salary increases for faculty and management at its October and December 2017 meetings, respectively. These salary increases, retroactive to July 1, 2017, totaled $2.1 million and represent the third ongoing salary increase in the past five years. Of course, the additional $2.1 million in expenses will result in a corresponding decrease in the projected ending fund balance presented in the Adoption Budget.

As was reported to the Governing Board during its September 2017 and February 2018 meetings, significant revenue in the District's Adoption Budget is predicated on shifting summer 2018 FTES into FY 2017-18. This shifting of summer FTES is necessary for the District to meet its FTES target and fund the colleges' ongoing operations. Despite enrollment being relatively flat year-over-year, without shifting summer 2018 FTES, the District would face a shortfall of approximately 1,820 FTES and lose $9.6 million in apportionment revenue this year. While this outcome will not occur, it is critical to highlight the amount of apportionment revenue not generated within the traditional academic year that the District currently budgets within its ongoing, operating budget. This takes on significant meaning in light of the recent changes being proposed to the community college system's funding formula, discussed later in this document.

Despite a strong state economy and robust job market within Contra Costa County, the District has maintained its enrollment year-over-year. In fact, despite the unemployment rate dropping to 3.3 percent, the District's productivity ratio of FTES/FTEF jumped to its highest level since FY 2013-14. Chart 1 illustrates the changing FTES/FTEF productivity ratios since FY 2007-08 and depicts the strong correlation between the District's FTES/FTEF productivity ratio and the unemployment rate in Contra Costa County.

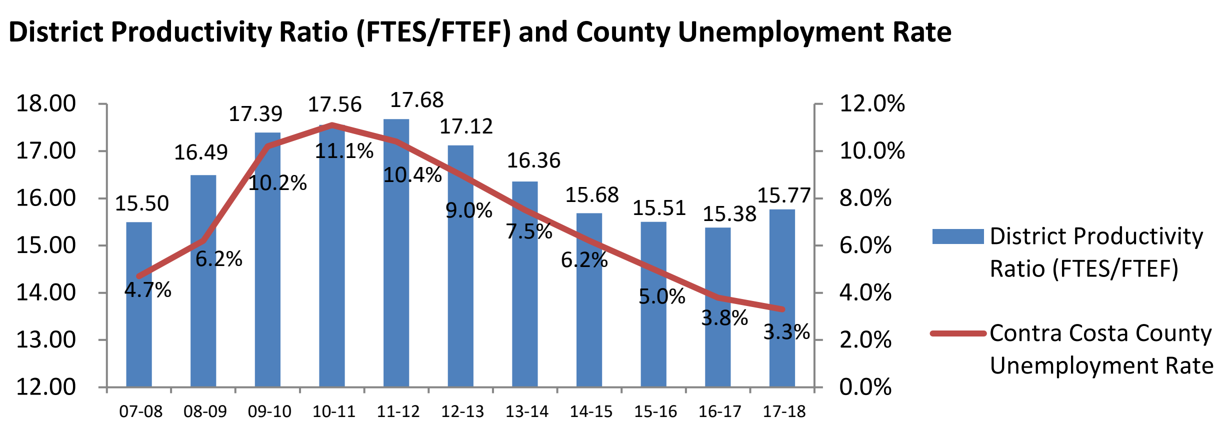


Chart 1

Overall, before accounting for the salary increases with faculty and management, the District's operating budget was adopted with a structural surplus of $2.1 million, approximately 1.1 percent of the expenditure budget. Table 1 shows the result of this surplus and its impact on the District's fund balance.

Unrestricted General Fund, Operating	
Income	$ 193,065,635
Expenses	190,967,333
Net Income over Expenses	$ 2,098,302
Beginning Fund Balance at July 1, 2017	$ 27,510,625
Operating Surplus	2,098,302
Projected Ending Balance at June 30, 2018	**$ 29,608,927**

Table 1

Detailed below are notable changes in revenue and expenditures since the FY 2017-18 Adopted Budget.

4.1 FY 2017-18 Changes in Revenues

Mandated Cost Reimbursements: The FY 2017-18 enacted state budget included $31.7 million in one-time funds for the community college system to pay down existing mandated cost claims. The District's portion of these one-time dollars was approximately $745,000 and was placed in a restricted fund for eventual transfer to the irrevocable trust for retiree health benefits.

Shifting FTES from summer 2018: Shifting FTES from summer 2018 will generate approximately $3.5 million in additional apportionment revenue above the District's funded FTES target. As the Governing Board has previously directed, District staff will transfer these dollars into a restricted fund for eventual deposit into the District's irrevocable trust for retiree health benefits.

4.2 FY 2017-18 Changes in Expenditures

Compensation Increases
Faculty and management employee groups each agreed to two-year agreements, with compensation increases totaling approximately 2.5 percent over the two years. Salary increases were retroactive to July 1, 2017. These compensation increases resulted in an additional $2.1 million in expenditures for the District.

4.3 FY 2017-18 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 2017-18. The projected ending balance for FY 2017-18 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.

	2017-18 Adopted Budget	2017-18 Projected Ending Balance
Designated Districtwide Reserves	$ 264,460	$ 412,785
Designated College Reserves	5,494,962	4,077,585
Designated District Office Reserves	449,798	321,897
Subtotal, Designated Site Reserves	**$ 6,209,220**	**$ 4,812,267**
5% Board Contingency Reserve	9,480,777	9,480,777
5% Board Reserve	9,480,777	9,480,777
Subtotal, Designated Board Reserves	**$ 18,961,554**	**$ 18,961,554**
Undesignated Districtwide Reserves	289,532	289,532
Undesignated College Reserves	3,540,623	2,894,674
Undesignated District Office Reserves	607,998	531,822
Subtotal, Undesignated Reserves	**$ 4,438,153**	**$ 3,716,028**
TOTAL RESERVES	**$ 29,608,927**	**$ 27,489,849**

Table 2

4.4 FY 2017-18 Adopted Budget Comparison to Projected Actuals

Table 3 shows the difference between the FY 2017-18 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 2017-18 becomes the projected opening balance in FY 2018-19. 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 2017-18 Adopted Budget	FY 2017-18 Projected Actuals
Revenues	$ 193,065,635	$ 197,189,023
Expenditures	190,967,333	197,209,799
Increase/(Decrease)	2,098,302	(20,776)
Opening Fund Balance	27,510,625	27,510,625
Ending Fund Balance	$ 29,608,927	$ 27,489,849

Table 3

5. FISCAL YEAR 2018-19 BUDGET DISCUSSION

5.1 FY 2018-19 Highlights

<u>Governor's Budget Proposal</u>

The Governor's proposed operating budget for FY 2018-19 creates the most uncertainty within the community college system since the mid-year trigger cuts of the Great Recession. Most profound is the desired shift, backed by the State Chancellor's Office, away from enrollment-based funding to performance-based funding. This proposed shift is extreme, with 50 percent of funding based upon what the state defines as a "low-income" student and what the state determines to be "student success". It is critical to understand that under this proposal 50 percent of apportionment funding will be determined by definitions that the state has the power to change. The community college system experienced the impact of state-controlled definitional changes when the Board of Governor's Fee Waiver (now the California Promise Grant) was made more restrictive and when the state implemented repeatability rules; those changes had a negative effect on access and contributed to enrollment declines. Ceding further control to the state will provide additional levers from which the state can potentially reduce funding.

Moreover, recent communication from the State Chancellor's Office and the Department of Finance indicates the strong likelihood that under the potential new funding formula districts would no longer be able to borrow or shift FTES from summer session. All summer session FTES would be counted in the fiscal year of the last day of instruction. The inability to shift FTES in summer session would have a financially devastating impact on the District. As previously mentioned, $9.6 million in ongoing funding built into the District's operating budget is attributable to borrowed summer session FTES. Without the ability to shift summer session FTES and assuming enrollment remains static, the District would be forced to reduce expenses by five percent in order to maintain a structurally balanced budget.

In addition, stability funding, which assures that districts that do not make their FTES base in a particular year will still be funded at their base in that year, would also be eliminated under the proposal. It would be replaced by a three-year average of reported FTES, a financially less desirable metric.

To assist in the transition to this potential formula, the Governor's proposed budget provides $175 million for the community college system to hold harmless those districts that would receive less funding under the new formula and to increase funding for districts that benefit under the new formula. Of note, the hold harmless provision as proposed is for a single year (FY 2018-19), leaving districts that would not financially benefit from the new formula susceptible to apportionment funding reductions in FY 2019-20.

Simulations recently shared by the Department of Finance show the District would not be a beneficiary under the new funding formula. In fact, greater than $9 million in apportionment funding could potentially be at risk beginning in FY 2019-20. Importantly, District staff cannot verify the veracity of the simulations; no spreadsheet has been provided and no sensitivity analysis performed. In fact, the original document that showed the $9 million in apportionment funding reduction for the District was removed from the website and is no longer available to view. What is known is that District FTES data utilized in the simulation was from FY 2016-17, an artificially low FTES year due to no summer session being reported. Undoubtedly, other districts which utilize the same borrowing-stability strategy skew the simulation, which attempts to predict outcomes in a new model based on data attributable to behavior from an old model.

Ironically, all this uncertainty comes with a very healthy state budget. Revenues outpace expenditures to the point where the Governor fully funds the state's Rainy Day Fund to 100 percent of its constitutional limit, a $5 billion transfer. If done, the Rainy Day Fund would have $13.4 billion, 10 percent of the annual state expenditure budget, from which to draw to help mitigate funding reductions in the event of a recession.

The Proposition 98 guarantee for community colleges increases by $780 million under the Governor's proposal. With that, a COLA of 2.51 percent is proposed along with 1 percent in growth funding. In addition, several non-apportionment items are funded, most notably Deferred Maintenance and Instructional Equipment. Table 4 shows the major proposals in the Governor's budget by category and the potential impact to the District.

Categories	Governor's Proposal	Potential Impact to District
Access/Growth **(ongoing)**	$60.0 million to fund 1 percent in access/growth for the community college system	None budgeted, but potential to earn 287 resident FTES valued at approximately $1.5 million
COLA **(ongoing)**	$161.2 million to fund a COLA of 2.51 percent, raising the value of a resident FTES from $5,151 to $5,280	Approximately $3.7 million in additional apportionment revenue. This is being applied in the Tentative Budget under the current funding formula and is subject to change based on the potential new funding formula
Funding Formula Transition **(ongoing)**	$175.0 million to support transition to a student-focused funding formula to replace the current enrollment-driven formula	The District is budgeting $3 million of this within its Tentative Budget. This is a highly volatile line item and could be zero.
Deferred Maintenance and Instructional Equipment **(one-time)**	$275.2 million with no local match requirements	A likely distribution of approximately $6.1 million

Table 4

The proposals put forth by the Governor in conjunction with the State Chancellor's Office are alarming and the uncertainty of a new funding formula makes planning for FY 2018-19 difficult. More daunting this year, however, is preparing a budget and making decisions in the context of multi-year planning. With significant financial downsides for the District attached to this potential new funding formula, District staff is aware that critical changes may occur between the Tentative Budget in June and the Adoption Budget in September. As always, the Governing Board will be kept up-to-date on shifts in this highly fluid situation.

5.2 FY 2018-19 Planning

Planning for the FY 2018-19 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 DGC. As delineated in Business Procedure 18.06, budget assumptions for the Tentative Budget go through the college Business Directors, CAT, Chancellor's Cabinet, and DGC. Each of these groups provides guidance and input into the budget development process.

<u>Resident FTES Targets</u>
With stagnant year-over-year enrollment, the District is budgeting for an unchanged resident FTES target. Achieving this target in FY 2018-19 would necessitate the District experience a greater than six percent rise in FTES. In a service area of full-employment, that is unrealistic. As previously covered, the District is incorporating a portion of its borrowed FTES within its ongoing, operating budget; this $9.6 million in revenue 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 Funding Formula transition increases directly related to that target.

	FY 2017-18 Resident FTES Target	FY 2018-19 Resident FTES Target	FTES Difference	$ Difference
CCC	5,381	5,381	-	$ 1,298,609
DVC	15,336	15,336	-	3,478,344
LMC	7,951	7,951	-	1,925,679
Total	**28,668**	**28,668**	**-**	**$ 6,702,632**

Table 5

Non-resident FTES Targets
The District is planning for a 200 non-resident FTES reduction in FY 2018-19. In recognition of declining international student enrollment, DVC is adjusting its non-resident target downwards. 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 2017-18 Non-Resident FTES Target	FY 2018-19 Non-Resident FTES Target	FTES Difference	Total Non-Resident $
CCC	250	250	-	$ 1,193,813
DVC	2,400	2,200	(200)	12,334,904
LMC	100	100	-	395,569
Total	**2,750**	**2,550**	**(200)**	**$ 13,294,286**

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 6.73 percent. A 6.73 percent premium hike translates to $2.28 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 2018-19, the known increase in CalSTRS will cost the District an additional $1.36 million. For CalPERS, the estimated increase in FY 2018-19 is $1.21 million. Combined, this $2.56 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 2018-19 (which are not included within the expenditure assumptions) will be determined through the collective bargaining process. Of note, the Governing Board has previously approved two-year agreements with United Faculty and Management Council; the terms of those agreements will be incorporated into the Tentative Budget.

5.3 FY 2018-19 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 $6.58 million in incremental revenue.

- COLA of 2.51 percent
  - *Potential impact*: A COLA of 2.51 percent at the resident FTES target of 28,668 will generate $3.70 million in incremental revenue for the District, assuming the methodology currently used is applied.
- Funding Formula Transition
  - *Potential impact*: The District is budgeting $3.00 million of revenue within its Tentative Budget. Again, this is a highly volatile item that could potentially be adjusted to zero by the Adoption Budget.
- Non-resident FTES target decreased by 200 but with a $5.00 per unit increase in tuition
  - *Potential impact*: The decrease in non-resident FTES is tempered by the $5.00 per unit increase in tuition. Overall, it results in a year-over-year decrease of $835,000 in budgeted revenue, all at DVC.
- State lottery revenue
  - *Potential impact*: $715,000 increase in lottery revenue received from the state. This rise is due to the reportable FTES to the state being artificially high 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 $6.41 million in increased expenses.

- Health benefits costs to increase by 6.73 percent
  - *Potential Impact*: A 6.73 percent increase in health benefits costs results in $2.28 million in additional expenses to the District. This increase includes retiree health benefits, which now comprise approximately 36 percent of the anticipated $36.15 million annual health benefit expenses.
- Step and column salary increases at 1.2 percent of total salaries
  - *Potential Impact*: Step and column increases are projected to cost $1.34 million and include all classes of employees.
- CalSTRS employer contribution rate to increase from 14.43 to 16.28 percent
  - *Potential Impact*: The known increase in the CalSTRS employer contribution results in $1.36 million in additional costs to the District.
- CalPERS employer contribution rate to increase from 15.53 to 18.10 percent
  - *Potential impact:* An increase in the CalPERS employer contribution rate from 15.53 to 18.10 percent creates an additional $1.21 million 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 $220,000.

Other Expenditure Assumptions

Additional expenditure assumptions that remain unchanged year-over-year include:

- 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 1.123 percent; and
- the state unemployment insurance rate will remain at 0.05 percent.

6. FISCAL YEAR 2018-19 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 assumptions. With the assumptions currently used, the District anticipates a small structural surplus of approximately $1.07 million.

6.1 FY 2017-18 and FY 2018-19 Comparison

Table 7 shows a comparison between the projected actuals for FY 2017-18 and the projected Tentative Budget for FY 2018-19. As explained previously, the budget assumptions driving these figures will almost assuredly change after the May Revision.

	FY 2017-18 Projected Actuals	FY 2018-19 Projected Tentative Budget	Increase/ (Decrease)
Funded Resident FTES	28,668	28,668	-
Revenues	$ 197,189,023	$ 203,651,920	$ 6,462,897
Expenditures	197,209,799	202,582,809	5,373,010
Opening Fund Balance	27,510,625	27,489,849	(20,776)
Change in Fund Balance	(20,776)	1,069,111	n/a
Ending Fund Balance	$ 27,489,849	$ 28,558,960	$ 1,069,111

Table 7

6.2 FY 2018-19 Projected Reserves

The reserves shown in Table 8 comprise the operating portion of the unrestricted general fund and tentatively project a FY 2018-19 ending reserve balance of $28,558,960. The table details the distribution of the projected FY 2018-19 ending reserve balance between designated and undesignated categories. College and District Office designations are continually updated and will change by Tentative Budget.

	2018-19 Projected Tentative Budget
Designated Districtwide Reserves	584,298
Designated College Reserves	3,391,347
Designated District Office Reserves	304,192
Subtotal, Site Designated Reserves[1]	**$ 4,279,837**
5% Contingency Reserve	9,909,322
5% Board Reserve	9,909,322
1% Minimum Location Reserves	1,961,081
Subtotal, Board Designated Reserves[2]	**$ 21,779,725**
Undesignated Districtwide Reserve	321,764
Undesignated College Reserves	1,700,895
Undesignated District Office Reserves	476,739
Subtotal, Undesignated Reserves[3]	**$ 2,499,398**
TOTAL RESERVES 6/30/19	**$ 28,558,960**

Table 8

1 Designated College, District Office, and Districtwide Reserves: Deficit funding reserves, contractual carryovers, 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.

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

7. 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 dollars frontloaded by the state for increasing the full-time faculty ratio, the fund balance is anticipated to decline again slightly in FY 2017-18. The change in fund balance year-over-year since FY 2010-11 within the unrestricted, operating fund is illustrated in Chart 2, with an estimate for FY 2017-18.

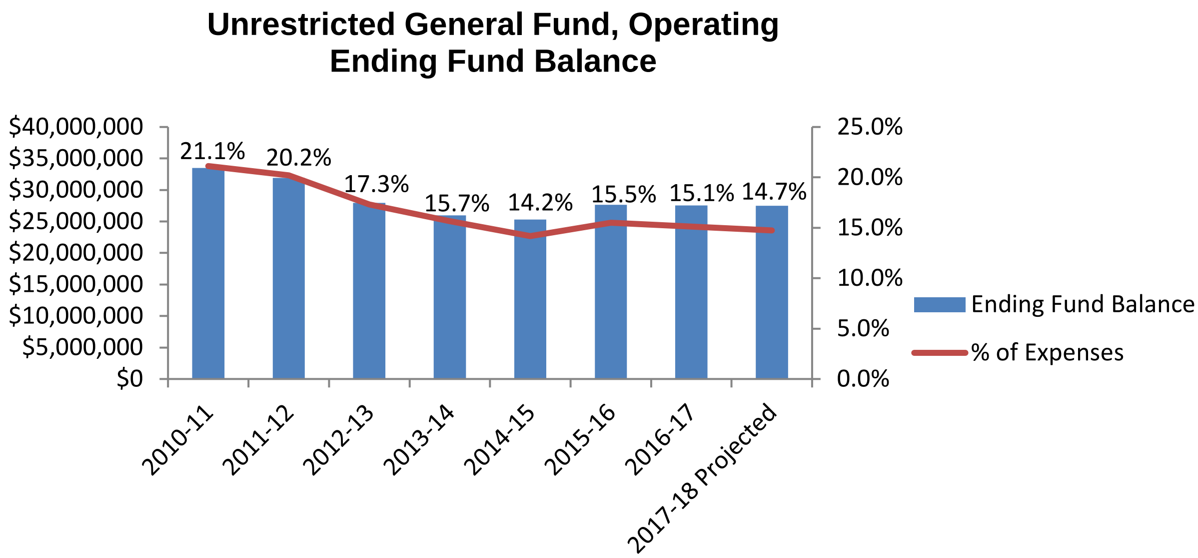
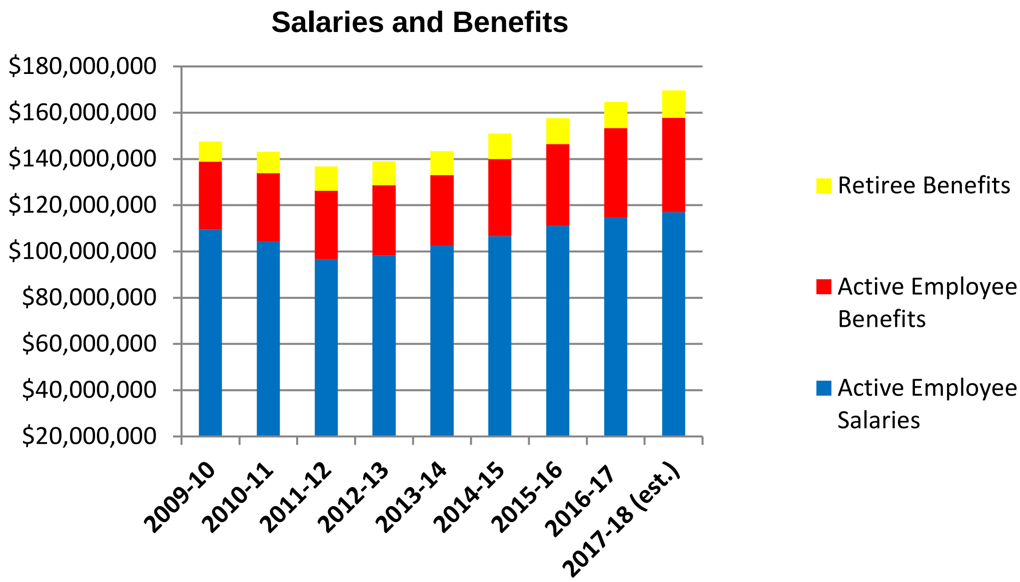


Chart 2

7.1 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 3 shows the past eight years of actual salary and benefit costs along with a projection for FY 2017-18. Items of note in Chart 3 follow.

- Salary costs have increased the past four years and are projected to be over $117 million in FY 2017-18, surpassing the previous fiscal year's peak of $115 million;
- total benefit costs have increased from $38 million in FY 2009-10 to an estimated $52.6 million in FY 2017-18, a 38.4 percent increase; and
- in FY 2009-10, for every dollar spent on salaries, an additional 35 cents was spent on benefits; however, in FY 2017-18 for every dollar spent on salaries, an additional 45 cents is spent on benefits. This is a 29 percent increase between FY 2009-10 and FY 2017-18.



Cumulative Totals

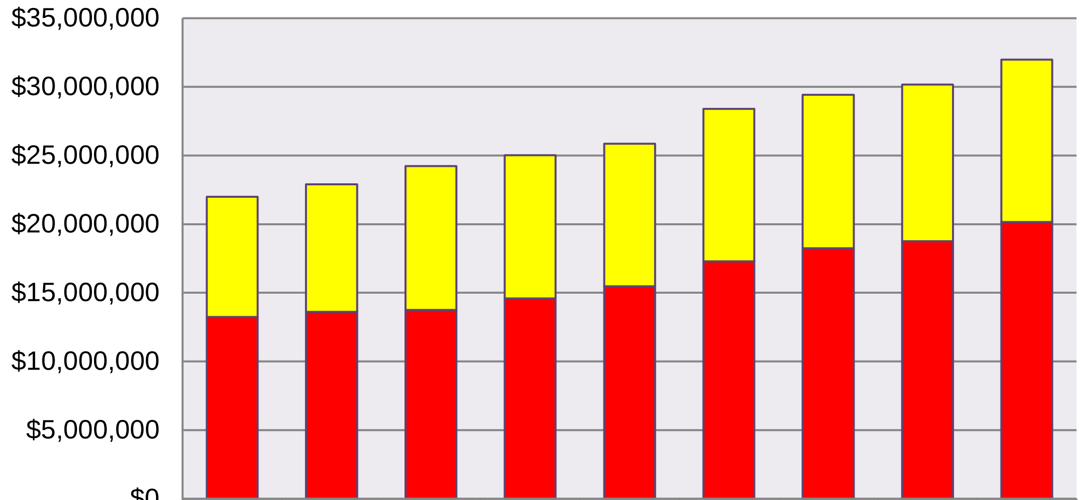
2009-10: $147.5 million (total benefits at 34.6% of salary)
2010-11: $143.1 million (total benefits at 37.0% of salary)
2011-12: $136.8 million (total benefits at 41.4% of salary)
2012-13: $139.0 million (total benefits at 41.5% of salary)
2013-14: $143.4 million (total benefits at 40.0% of salary)
2014-15: $151.0 million (total benefits at 41.7% of salary)
2015-16: $157.6 million (total benefits at 42.0% of salary)
2016-17: $164.7 million (total benefits at 43.5% of salary)
2017-18: $169.6 million (total projected benefits at 45.0% of salary)

Chart 3

By removing payroll taxes (CalPERS, CalSTRS, FICA, Medicare, etc.) from active employees and comparing only health benefit costs, the picture changes dramatically. Chart 4 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 6.3 percent of total operating expenditures for the District.

District staff recently brought on Alliant Employee Benefits (Alliant), a consultant to work on behalf of the District. Beyond interfacing directly and negotiating with the insurance providers, Alliant has explored other avenues in pursuit of cost reductions. Recently, Alliant asked for information from the Self-Insured Schools of California (SISC), which pools the risk of many public agencies within the state. Unfortunately, SISC declined in providing a quote, citing the risk involved with insuring existing retirees not enrolled in a Medicare-coordinated plan. Alliant, in conjunction with District staff, will continue to pursue other options for health benefit savings.

Health Benefit Premium Costs



	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Retirees	$8,751,165	$9,294,095	$10,476,622	$10,420,816	$10,374,198	$11,117,436	$11,178,084	$11,415,021	$11,835,183
Active Employees	$13,245,803	$13,607,401	$13,749,185	$14,595,072	$15,480,708	$17,288,504	$18,235,877	$18,748,678	$20,154,955

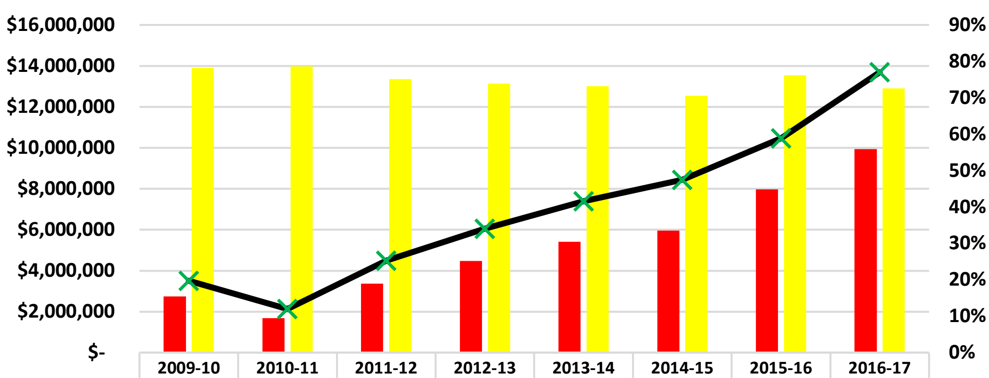
Chart 4

7.2 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 5 shows a history of the District's compensated absences. Encouragingly, the unfunded liability at the end of FY 2016-17 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 2016-17. 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 2016-17, the District had $9.93 million to cover a liability of $12.90 million, a funding level of 77.0 percent. This history is illustrated in Chart 5.

Compensated Absences History



	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Funded	$2,750,000	$1,674,980	$3,369,928	$4,471,099	$5,413,381	$5,951,275	$7,977,686	$9,937,811
Compensated Absences	$13,904,508	$13,978,339	$13,352,175	$13,136,503	$13,008,825	$12,544,852	$13,541,535	$12,902,273
% Funded	20%	12%	25%	34%	42%	47%	59%	77%

Chart 5

8. Next Steps

The Governor's revised budget will be released in mid-May 2018. 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 substantial changes to the proposed funding formula. The final state budget will almost certainly be enacted by June 30, 2018, providing ample time for District staff to prepare the final Adoption Budget to be presented to the Governing Board at its September 2018 meeting.

9. Conclusion

Community colleges face significant challenges in improving economic times. The demand for services goes down at the same time incremental funding is available to increase those same services. As the District prepares to face this challenge in FY 2018-19 it must be innovative and market the value it provides in order to combat the sluggish enrollment it has seen the past several fiscal years. As Table 9 and Chart 5 clearly demonstrate, the value of an education is undeniable and the bargain that community colleges provide is irrefutable. The District will work to capitalize on this competitive advantage while continuing to deliver a high quality educational experience to the students in its service area.

Education attained	Unemployment rate in 2017	Median Weekly Earnings in 2017
Doctoral degree	1.5%	$1,743
Professional degree	1.5%	$1,836
Master's degree	2.2%	$1,401
Bachelor's degree	2.5%	$1,173
Associate's degree	3.4%	$836
Some college, no degree	4.0%	$774
High school diploma	4.6%	$712
Less than a high school diploma	6.5%	$520

Note: Data are for persons age 25 and earnings are for full-time wage and salary workers.
Source: Current Population Survey, U.S. Department of Labor, U.S. Bureau of Labor Statistics.

Table 9

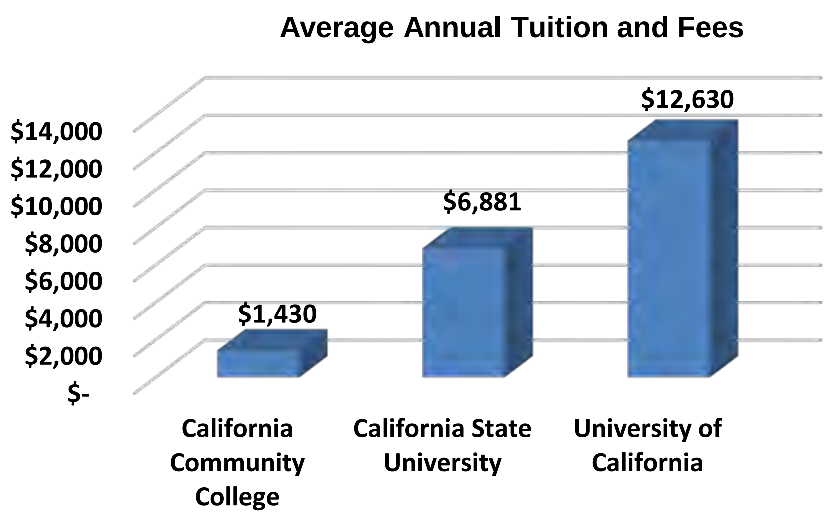


Chart 6

APPENDICES

A. SOUND FISCAL MANAGEMENT CHECKLIST
B. AUDIT FINDINGS FOR FY 2015-16 AND 2016-17
C. 2018-19 BUDGET DEVELOPMENT ASSUMPTIONS
D. THREE-YEAR BUDGET FORECAST
E. FIVE-YEAR EXPENDITURE TRENDS
F. 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 $21,000, a miniscule decrease in an almost $200 million annual operating 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. In FY 2015-16, the District's ending balance increased, with small decreases the past two years.
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 2017-18, the District's budgeted on-going expenses are projected to be $21,000 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 $27.5 million at the end of FY 2016-17. 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 several 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 to all employee groups in FY 15-16, only the second salary increase since FY 08-09. Approved contracts with an additional 2.5% salary increase are in place for United Faculty and management through FY 18-19.
Did the District conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement?	Yes	Ongoing salary increases are determined based on an agreed upon formula taking into consideration ongoing 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 2016-17 and 2017-18, the percentage of the General Fund that was expended for salaries and benefits was 88%. The District believes this is in line with the statewide average, considering the pension cost increases.
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 2016-17 general ledger and an unmodified 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 2016-17 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 website as part of the agenda materials provided to the Governing Board. Commonly requested documents, such as budget and audits, are also available on the Administrative Services' 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 given 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?	No	Unfortunately, this has little meaning with the recent GASB pension and OPEB 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 is not truly District debt. Also with the

		implementation of GASB 68 and 75, the District must now put its share of pension and OPEB liabilities on its balance sheet. Load banking and vacation unfunded liabilities have decreased from $12.3 million to $2.9 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 study every year for GASB 75 post-employment health benefits debt and has established an irrevocable trust to meet GASB 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 June 2017. The District's total OPEB liability is at $238 million, with over $105 million funded in an irrevocable trust. .
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 $105 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 hired a new Chancellor in January 2017, an individual with over 25 years of experience in California higher education. The District's two Executive Vice Chancellors have been with the District for 16 and 24 years, respectively. The Governing Board has five members, one elected in January 2010; two elected in November 2012; one who is completing the term of a recently deceased Board member; and one vacancy to be filled in November 2018.

APPENDIX B

AUDIT FINDINGS FOR FY 2015-16 AND FY 2016-17

Appendix B
Audit Findings for FY 2015-16 and 2016-17

The annual financial audit for the District conducted by the external audit firm reported no findings in FY 2015-16 and FY 2016-17.

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

Audit Findings for FY 2016-17
There were no audit findings in FY 2016-17

APPENDIX C

FY 2018-19 BUDGET DEVELOPMENT ASSUMPTIONS

APPENDIX C

2018-19 OPERATING BUDGET DEVELOPMENT ASSUMPTIONS
Key Budget Assumptions: 2.51% COLA; 0% FTES Adjustment; 6.73% H/W Increase
Unrestricted General Fund

Updated: 04/09/2018

FTES	16/17 Actuals	17/18 Budget	18/19 Tentative Budget Assumptions
Resident Credit rate	$ 5,005.75	$ 5,151.23	$ 5,280.53
Resident Non-Credit rate	$ 3,010.10	$ 3,097.58	$ 3,175.33
Resident Credit target	28,589.97	28,589.97	28,589.97
Resident Non-Credit target	78.03	78.03	78.03
Resident Credit - funded	28,589.97	28,589.97	28,589.97
Resident Non-Credit - funded	78.03	78.03	78.03
Non-Resident Target	2,750.00	2,750.00	2,550.00
Resident Unit Fee	$ 46.00	$ 46.00	$ 46.00
Non-Resident Unit Fee	$ 211.00	$ 228.00	$ 233.00

	Revenue Assumptions	16/17 Actuals	17/18 Budget	18/19 Tentative Budget Assumptions
1.	**FTES (Resident)**	28,668.00	28,668.00	28,668.00
2.	**FTES (Non-Resident)**	2,750.00	2,750.00	2,550.00
	Revenue	$13,258,336	$14,759,926	$13,924,286
3.	**COLA**	0.00%	1.56%	2.51%
	Incremental Revenue	-	$2,424,263	$3,702,632
4.	**Lottery, unrestricted**	$143	$146	$146
	Total Revenue	$3,924,052	$3,871,336	$4,587,027
5.	**Lottery, Prop 20 Restricted**	$45	$48	$48
	Total Revenue	$1,327,092	$1,272,768	$1,508,064
6.	**Deficit (property taxes/enrollment fees)**	0.0%	0.5%	0.5%
	Reduction in Revenue	-	($797,811)	($801,800)
7.	**FTES Adjustment**	1.06%; 301 net increase	0.00%	0.00%
	Incremental Revenue	$1,509,489	-	-
8.	**Base Allocation Increase/New Funding Formula**	$1,952,264	$4,131,000	$3,000,000

	Expenditure Assumptions	16/17 Actuals	17/18 Budget	18/19 Tentative Budget Assumptions
1.	**Salary Increase**	0%	2.5%[1]	0%[2]
2.	**Step/Column Annual Average Increase**	1.2%	1.2%	1.2%
3.	**Health and Welfare (H&W)**	8.31%	8.05%	6.73%
	Active Employees	$19,929,679	$21,544,021	$ 22,993,934
	Retirees	$11,415,103	$12,334,020	13,164,099
		$ 31,344,782	$ 33,878,041	$ 36,158,033
4.	**Payroll Taxes**			
	PERS Rate	13.888%	15.531%	18.100%
	PERS Safety Rate (Police)	26.650%	25.610%	25.610%
	STRS Rate	12.580%	14.430%	16.280%
	Worker's Compensation Rate	1.283%	1.123%	1.123%
	State Unemployment Insurance (SUI) Rate	0.050%	0.050%	0.050%
5.	**Districtwide Assessments and Other Expenses**			
	Utilities (5% Increase over CY projections)	$ 4,193,609	$ 4,403,289	$ 4,623,454
	Property & Liability Insurance	1,029,026	1,350,000	1,350,000
	Student Accident Insurance/Student Assistance Program	299,532	330,000	330,000
	IT Maintenance Agreements	1,643,932	1,450,000	1,450,000
	Retiree Health Benefit Annual Contribution	1,000,000	1,000,000	1,000,000
	Faculty Sabbaticals	471,529	480,960	490,579
	Legal Costs	704,286	400,000	400,000
	Election Costs	91,571	100,000	245,000
	Audit	213,400	175,000	175,000
	SUI Experience Charges	135,501	150,000	150,000
	Self-Insurance Annual Contribution	100,000	100,000	100,000

[1] Negotiations with Local 1 are ongoing
[2] Any salary increases for FY 2018-19 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
2018-2019 Fiscal Year and Beyond

Unrestricted, Ongoing General Fund

	0% Growth, 2.51% COLA, Funding Formula Increase 28,668 FTES **FY 2018-19**	*1% Growth, 2% COLA 28,955 FTES* **FY 2019-20**	*2% Growth, 2% COLA 29,534 FTES* **FY 2020-21**
Base Revenue	$ 203,651,920	$ 203,651,920	$ 208,223,205
COLA and Other Ongoing Revenue	-	3,027,341	3,118,801
Growth Revenue	-	1,543,944	3,180,628
Revised Revenue	**$ 203,651,920**	**$ 208,223,205**	**$ 214,522,633**
Budgeted Ongoing Expenses	$ 202,582,809	$ 202,582,809	$ 208,294,612
Step/Column Increases	-	1,339,200	1,355,270
Health Benefits Cost Increases	-	1,807,902	1,898,297
STRS/PERS Increases	-	2,564,701	2,222,088
Revised expenditures	**$ 202,582,809**	**$ 208,294,612**	**$ 213,770,267**
Revenue less Expense	**$ 1,069,111**	**$ (71,407)**	**$ 752,366**
Potential Expenditure Reductions	-	-	-
Beginning fund balance	$ 27,489,849	$ 28,558,960	$ 28,487,553
Estimated Ending Balance	**28,558,960**	**28,487,553**	**29,239,919**
Adjustment to Fund Balance	**$ 1,069,111**	**$ (71,407)**	**$ 752,366**

These figures are estimates based on assumptions and *will* change, particularly if a new funding formula is adopted

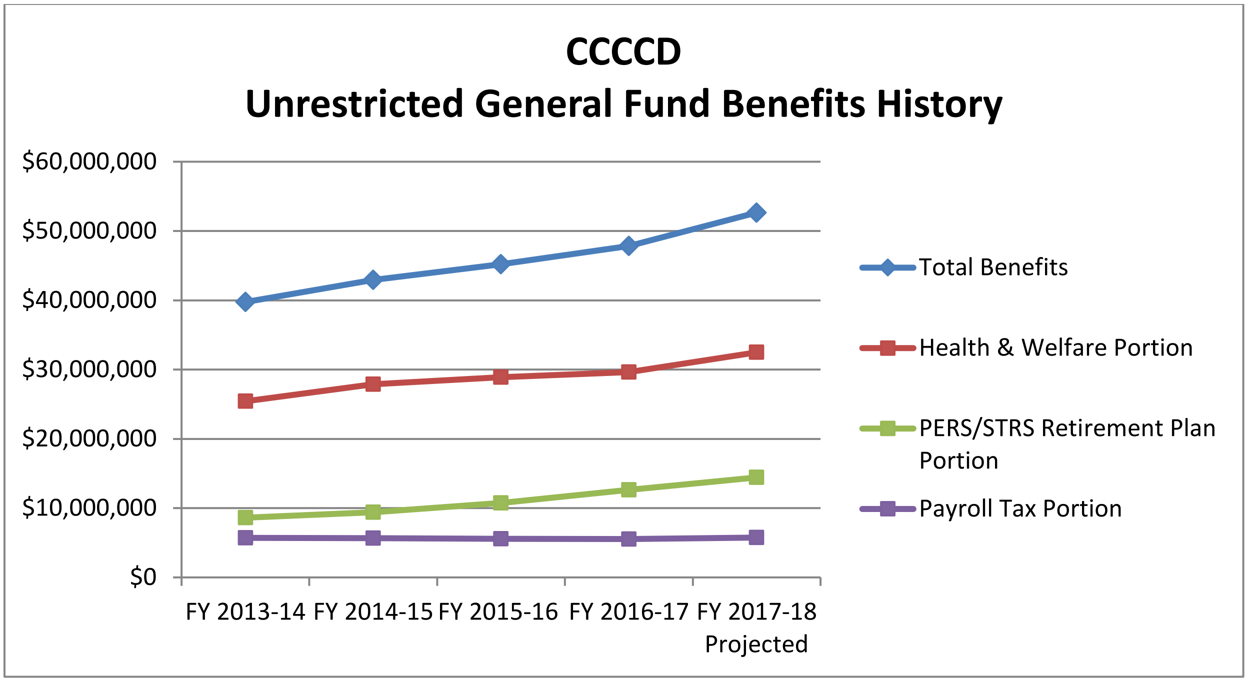
<u>Key Assumptions</u>

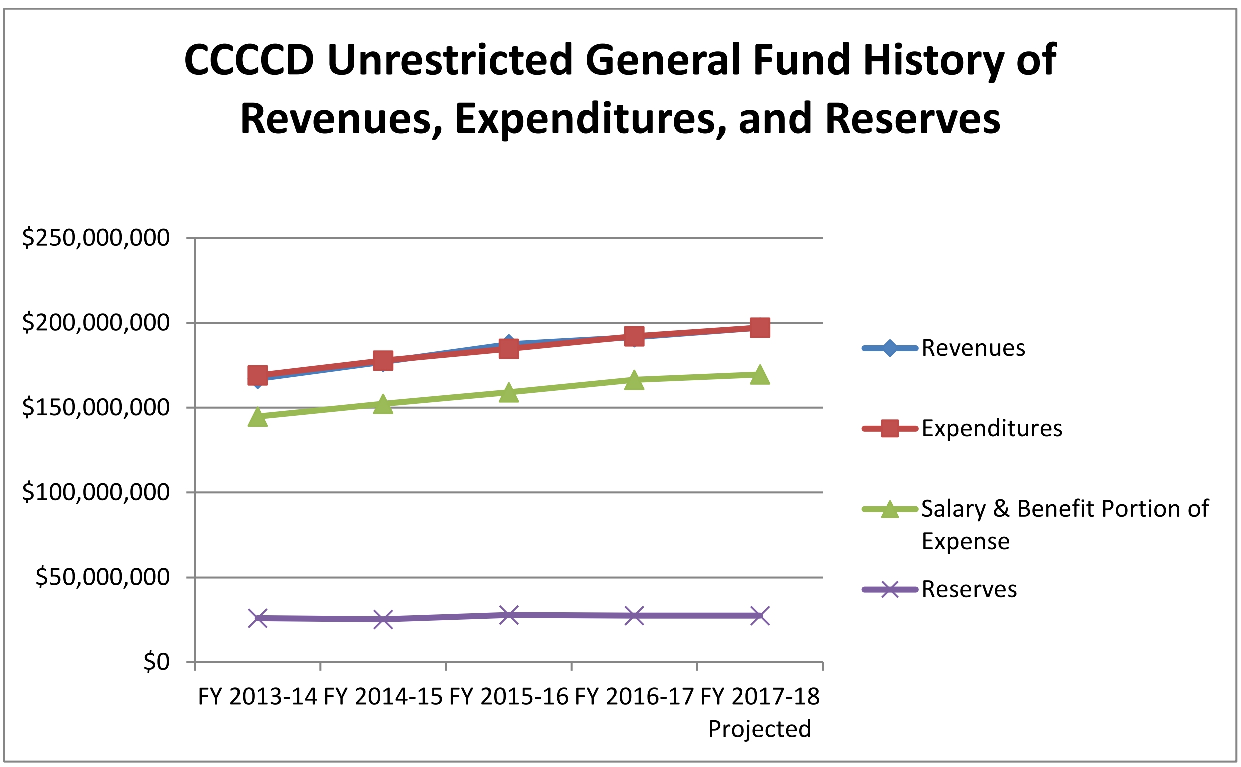
1% Growth in FY 2019-20 and 2% Growth in FY 2020-21
2% COLA in FY 2019-20 and 2% COLA in FY 2020-21
Step/Column increases at 1.2% each year
Health Benefit increases in FY 2019-20 and FY 2020-21 at 5% each year

APPENDIX E

FIVE-YEAR EXPENDITURE TRENDS

APPENDIX E
FIVE-YEAR EXPENDITURE TRENDS





APPENDIX F

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.