Contra Costa Community College District

pathways to success

STUDY SESSION

DEVELOPMENT OF THE 2014-15 DISTRICT BUDGET

APRIL 23, 2014

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

STUDY SESSION
DEVELOPMENT OF THE
2014-15 DISTRICT BUDGET

AGENDA

I. Review of FY 2013-14 budget status and FY 2014-15 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 all actions are student-centered;
- communication of financial information is practiced to ensure dialogue among constituencies and honest portrayal of the District's financial condition;
- decisions on financial matters are data driven;

- District budget practices are comparable to institutions of similar size and scope; and
- items included in the budget will be based on need.

1.3 Business Procedure 18.02, Parameters for Budget Development and Preparation

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

- allow the resources sufficient for meeting the needs of the diverse student population of the District;
- be developed based on achievable full-time equivalent student (FTES) goals that provide for the highest possible level of student access;
- maintain a minimum emergency fund balance reserve of 5 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 (excluding sabbaticals and classified employee enhancement program);
- cover the current-year retiree health benefit expenses and increase restricted reserves for the retiree health benefit liability;
- include funding for new Districtwide projects based on District goals;
- adhere to formulae stipulated in business procedures;
- budget and restrict college year-end carryover balances for one-time expenditures only;
- maintain and improve colleges in a manner that attracts students and provides an environment that promotes education, including providing matching funds;
- include total compensation for all employees which will be in the top one-third of the Bay 10, excluding basic aid districts, only if the District can afford it;
- reflect improvement in productivity at all levels; and
- be developed within a multi-year plan.

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

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

3. CONTRA COSTA COMMUNITY COLLEGE DISTRICT GOVERNING BOARD 2013-14 BOARD OBJECTIVES

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

1.1 Strengthen the Board's capacity to use metrics to monitor improvements in student learning and success.
1.2 Identify appropriate Board roles and/or policies to address needs related to the level of preparation of high school students.
1.3 Monitor activities on closing the achievement gap.
1.4 Become familiar with online education programs and services for students offered by the District.

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

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

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

3.1 Monitor college and District participation in workforce and economic development activities.

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

4.1 Engage in individual trustee and Board development activities.
4.2 Participate in development of documents requiring Board input and approval.
4.3 Monitor human resources issues that have an impact on workforce diversity.
4.4 Continue to support outreach to local vendors in order to provide opportunities to conduct business with the District.
4.5 Participate in community activities that have a financial impact on the District.

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

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

4. BUDGET DEVELOPMENT CALENDAR - FY 2014-15

The following is a listing of the actions to be undertaken in the development of the budget for 2014-15. 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
- College Business Directors, Chancellor's Advisory Team (CAT), Cabinet, and District Governing 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. STATUS OF FISCAL YEAR 2013–14

In September 2013, the Governing Board adopted the FY 2013-14 budget. Unlike previous-year budgets, this budget provided a level of certainty and stability to the District. Due to the passage of Proposition 30 in November 2012 and a recovering state economy, the fear of mid-year reductions and/or trigger cuts were no longer present. In fact, access/restoration funding[1] of 2.14 percent was available for the District to earn and, for the first time since FY 2007-08, a COLA (1.57 percent) was granted to the community college system. These two factors resulted in approximately $5 million in year-over-year incremental revenue that flowed through the District's revenue allocation model.

Bolstered by this improved funding environment, the District negotiated compensation, including base salary, increases with its bargaining groups. After four years of stagnant salary schedules, employees of the District received a 2 percent salary schedule increase, and a multi-year formula was developed to determine future salary levels. Inclusive of the salary increase, the Adopted Budget for FY 2013-14 showed a structural surplus (revenues greater than expenses) of $1.4 million within the operating, ongoing portion of the unrestricted general fund. Important to the budgeted surplus was achieving full-time equivalent student (FTES) growth targets.

Detailed below are notable changes in revenues, expenditures and other points of interest from FY 2013-14.

5.1 Changes in FY 2013-14 Revenues

Non-resident Tuition: The demand for courses, particularly at Diablo Valley College (DVC), from non-resident and international students continues to grow. In FY 2013-14, the District budgeted revenue for 2,493 non-resident FTES, equating to $12.3 million. Actual non-resident FTES is now projected to be greater than 2,700. The incremental revenue associated with this increase in non-resident FTES is $1.1 million.

Apportionment Recalculation: The District received an additional $655,655 from the apportionment recalculation done by the State Chancellor's Office for FY 2012-13. This additional revenue was generated due to a deficit factor less than what was calculated by the State Chancellor's Office on the FY 2012-13 P-2 apportionment report[2]. The deficit factor is a shortfall in property tax receipts and enrollment fee collections statewide. This shortfall is not backfilled by the state and becomes a one-time deficit that does not carry forward or affect base funding in subsequent years. The recalculation of the deficit factor done by the State Chancellor's Office confirmed the shortfall was not as large as anticipated at the P-2 report, resulting in an additional $655,655 in District revenue which was distributed consistent with the District's revenue allocation model.

5.2 Changes in FY 2013-14 Expenditures

Legal Expenses: A year removed from informing the Board about higher-than-average legal expenses (over $640,000 in FY 2012-13 largely due to two cases), the District is pleased to report a significant drop in legal fees in FY 2013-14. With only $155,000 in total legal expenses through February, the District is confident that not only will these expenses be significantly down year-over-year, but also will be well under the budgeted amount of $450,000.

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1 Access/restoration funding for the District is available monies that can be earned through growing its FTES base.

2 The P-2 apportionment report is released annually in June by the State Chancellor's Office and is driven by the District's reported FTES. The P-2 report determines the amount of apportionment funding the District is eligible to receive.

Unemployment Benefits: As the economy and job market improve in California, the expenses associated with unemployment benefits have declined. In addition to the unemployment payroll tax (which decreased dramatically in FY 2013-14 from over 1 percent to 0.05 percent), the District pays 15 percent of the unemployment benefits received by eligible individuals. This expense is referred to as the "Local Experience Charge" (LEC) and is paid quarterly to the California Employee Development Department. At its height in FY 2011-12, the District's LEC reached $211,000; since then, the LEC expense has progressively decreased. In the current fiscal year, the District anticipates its LEC to total approximately $120,000, a $100,000 savings over the budgeted amount.

5.3 FTES Challenges

FY 2013-14 Resident FTES Target: Based upon a District recommendation, the Governing Board directed staff to utilize the "stability" option in FY 2012-13. Stability is an accounting and funding mechanism that allows districts that do not meet base resident FTES to still be funded, within the shortfall year, as if the FTES base had been achieved. In subsequent years, however, a district must regain its base funding or else it will only receive funding for the resident FTES achieved. By exercising the stability option in FY 2012-13, the District received funding for FTES greater than was actually achieved and started FY 2013-14 with resident FTES targets to capture the available 2.1 percent access/restoration funding. Those resident FTES targets, inclusive of the 2.1 percent access/restoration funding, are shown in Table 1.

FY 2013-14 Resident FTES Targets

CCC	DVC	LMC	Total
5,581	15,035	7,751	28,367

Table 1

Enrollment: The District began the fiscal year with strong enrollment as Summer 2013 resident FTES grew 17 percent over Summer 2012. Unfortunately, Fall 2013 and Spring 2014 were flat or slightly down year-over-year. This decline has resulted in a resident FTES shortfall at each site and has raised the prospect of "borrowing" resident FTES from Summer 2014 to ensure each college meets its target. The Districtwide 975 resident FTES shortfall (with each FTES worth $4,636) illustrated in Table 2 carries a value of $4.5 million in apportionment revenue for the District, which was included in the Adopted Budget and distributed within each site's budget allocation.

	Resident FTES Goal	Estimated Resident FTES Achieved	Shortfall	% Shortfall
CCC	5,581	5,313	(268)	-4.8%
DVC	15,035	14,668	(367)	-2.4%
LMC	7,751	7,411	(340)	-4.4%
Total	**28,367**	**27,392**	**(975)**	**-3.4%**

Table 2

While District staff are not advocating for or recommending a borrowing strategy at this time, it is necessary to make an assumption as to the level of resident FTES for which the District will receive funding in FY 2013-14. The level of funded resident FTES greatly affects the ending fund balance, especially when $4.5 million in budgeted apportionment revenue is in play. Moreover, the level of funded FTES achieved in FY 2013-14 becomes the District's base in FY 2014-15; thus, it affects revenue in *both* years. Consequently, for purposes of this study session, it is assumed resident FTES will be borrowed from Summer 2014 to achieve the FY 2013-14 resident FTES target.

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

A final decision on borrowing resident FTES from Summer 2014 can be made as late as October 2014. District staff anticipate bringing further information on borrowing to the Governing Board while presenting the FY 2014-15 Tentative Budget during the June 2014 meeting. A recommendation on a strategy would then be brought to the Governing Board at the July 2014 meeting.

5.4 Adopted Budget and Projected Reserves

The District's expenses are currently trending very close to its budget. Table 3 details the Adopted Budget reserves and the Projected Ending reserves for FY 2013-14. The projected ending balance for FY 2013-14 is inclusive of expected transfers for maintenance projects and long-term liabilities. In addition, the projected ending balance is based on the assumption the District borrows resident FTES from Summer 2014 to meet its resident FTES target. The reserves shown in Table 3 represent the operating, ongoing portion of the unrestricted general fund.

	2013-14 Adopted Budget	2013-14 Projected Ending Balance
Designated College Reserves	$ 9,426,485	$6,613,124
Designated District Office Reserves	538,667	68,400
Subtotal, Designated Reserves	**$9,965,152**	**$6,681,524**
5% Contingency Reserve	8,240,229	8,240,229
5% Board Reserve	8,240,229	8,240,229
Subtotal, Designated Reserves	**$16,480,458**	**$16,480,458**
Undesignated Districtwide Reserve	24,149	97,823
Undesignated College Reserves	2,342,223	4,926,592
Undesignated District Office Reserves	573,611	1,043,878
Subtotal, Undesignated Reserves	**$ 2,939,983**	**$ 6,068,293**
TOTAL RESERVES	**$29,385,593**	**$29,230,275**
Calls on Reserves:		
Load Bank Liability Reserve	$ 262,730	-
Vacation Liability Reserve	176,238	-
Reserve for ISA Payback	1,499,328	-
Deficit Funding Reserve	2,909,939	-

Table 3

5.5 Adopted Budget Comparison to Projected Actuals

Table 4 shows the difference between the FY 2013-14 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 2013-14 becomes the projected opening balance in FY 2014-15.

	FY 2013-14 Adopted Budget	FY 2013-14 Projected Actuals
Revenues	$167,125,257	$168,951,825
Expenditures	165,702,207	167,684,126
Increase/(Decrease)	1,423,050	1,267,699
Opening Fund Balance	27,962,543	27,962,576
Ending Fund Balance	$29,385,593	$29,230,275

Table 4

6. 2014-15 BUDGET DISCUSSION

6.1 Highlights

Governor's Budget Proposal: At $106.8 billion, the Governor's proposed budget for FY 2014-15 would be the largest general fund budget in state history. Despite its size, the general fund budget only proposes a modest increase in ongoing spending; significant expenses are one-time and largely predicated on the state's past practice of deferring expenses into subsequent fiscal years. Governor Brown calls this the "Wall of Debt" and dedicates substantial resources to buy down this $24.9 billion liability.

Governor Brown's proposed budget anticipates substantial growth (11.4 percent year-over-year) in the Proposition 98 guarantee for FY 2014-15. Additionally, recalculations done for the prior two fiscal years have shown that Proposition 98 was underfunded by $3.3 billion. This recalculation results in one-time funds that Governor Brown has proposed using to address the "Wall of Debt" and pay down K-14 system deferrals, possibly to zero.

With the Proposition 98 guarantee for FY 2014-15 showing double-digit growth and with one-time revenue from prior-year recalculations, Table 5 illustrates how the Governor's proposed budget allocates these additional revenues to the community college system and to the District.

Categories	Governor's Proposal	Impact to District
➢ Access/Restoration	$155 million to fund 3 percent in access/restoration for the community college system	Potential to earn an additional 850 resident FTES, valued at approximately $4 million
➢ COLA	$48.5 million to fund a COLA of 0.86 percent, raising the value of a resident FTES from $4,636 to $4,676	Up to $1.2 million in additional apportionment revenue
➢ Student Success Support Program (formerly Matriculation)	$200 million in additional funds for the community college system	Distribution is currently unknown, but, assuming distribution on FTES, it would be $5 million
➢ Proposition 39 - Energy Efficient Projects	$39 million for energy-efficient projects for the community college system	A likely distribution of approximately $1 million
➢ K-14 System Deferrals	A pay-down of system deferrals (currently at $592 million), possibly to zero	In FY 2012-13, the District posted a $15.3 million receivable that would be eliminated with this proposal
➢ No Restoration of Categorical Programs[3]	Categoricals within the system were dramatically reduced in FY 2009-10 and have yet to be restored	Without restoration, the District will see no increase in categorical programs that have been reduced 34 percent ($4.6 million) since FY 2009-10

Table 5

[3] Categorical programs include Disabled Student Programs and Services, Extended Opportunity Program and Services, and other, smaller programs with dollars earmarked for specific purposes.

While the District is supportive of the overall increase in funds available for the community college system, its strong preference is that additional funds be directed at COLA; an increase of less than one percent does not keep up with rising fixed costs. Moreover, additional dollars tied to increasing enrollment will be difficult for the District to earn in light of its current FTES challenges.

Policy Proposals: The Governor's proposed budget also includes policy matters. Additional information on these proposed policies will be forthcoming in the May Revision. Unlike last year in which the Governor proposed highly controversial policies (funding based upon completion, 90-unit cap, etc.), the policies put forth this year are rather mundane and include:

- a reiteration to provide funding in FY 2015-16 to implement plans being developed by regional adult education consortia; and
- a constitutional amendment to smooth year-to-year school spending in an attempt to alleviate drastic cuts that have occurred in the past (very few details on this proposed constitutional amendment).

6.2 Planning

The Governor's proposed budget skews heavily toward access/restoration funding and provides less than one percent for COLA. The imbalance toward access/restoration is problematic for the District in light of its FTES challenges. Again, the District would strongly prefer to see funds shifted to provide additional COLA.

Resident FTES Targets: Due to the FTES challenges the District is facing and because of the prospect of borrowing resident FTES from Summer 2014, current planning is for zero percent access/restoration funding. The District feels it is prudent to leave FTES targets at their current levels until a decision is made by the Governing Board regarding borrowing FTES from Summer 2014. However, the District is budgeting for the 0.86 percent COLA included in the Governor's proposal. The effect of the COLA is shown in the "Additional Dollars" column in Table 6.

	FY 2013-14 Resident FTES Target	FY 2014-15 Resident FTES Target	Additional FTES	Additional $
CCC	5,581	5,581	-	223,240
DVC	15,035	15,035	-	601,400
LMC	7,751	7,751	-	310,040
Total	**28,367**	**28,367**	-	**$1,134,680**

Table 6

Non-resident FTES Targets: While resident FTES targets are stagnant, the District is anticipating and budgeting for an increase in non-resident FTES. The targets for FY 2014-15 are a reflection of the anticipated actual non-resident FTES achieved in FY 2013-14. Those targets and the corresponding dollars are displayed in Table 7.

	FY 2013-14 Non-Resident FTES Target	FY 2014-15 Non-Resident FTES Target	Additional FTES	Total Non-Resident $
CCC	193	250	57	1,216,209
DVC	2,200	2,400	200	11,942,756
LMC	100	100	-	435,340
Total	**2,493**	**2,750**	**257***	**$13,594,305**

*Represents approximately $1.3 million in increased revenue

Table 7

Instructional Service Agreements: Since FY 2011-12, the District's apportionment funding has been reduced by $1.5 million annually to repay the state for penalties associated with certain disallowed FTES stemming from Instructional Service Agreement (ISA) issues at CCC and LMC. The three-year ISA payback totaled $4.5 million but is no longer a concern in FY 2014-15.

Health Benefit Increase: The District recently received unfavorable information from its benefit consultant regarding utilization for both its healthcare carriers, Anthem Blue Cross and Kaiser. Anthem Blue Cross rates for active employees will be increasing next year by approximately 13-17 percent, dependent upon the plan. Kaiser rates for active employees will be increasing approximately 15 percent next year. Although the District is anticipating an increase commensurate with active employees, retiree rates are not yet available.

Assuming an overall blended rate increase of 14 percent, the District anticipates healthcare costs to increase by $3.8 million in FY 2014-15. This is a significant increase in expense and is one of the reasons the District believes a greater COLA from the state is needed.

6.3 Budget Assumptions for FY 2014-15

Revenue Assumptions: Following are the major revenue assumptions based on what is known at this point in the state budget process. These revenue assumptions total $2.43 million in incremental revenue.

- No access/restoration funding will be earned
  - *Potential impact*: The District is not projecting access/restoration funding will be earned but will update this assumption if needed.
- Non-resident FTES projected to increase by 257 FTES
  - *Potential impact*: $1.3 million in incremental revenue to the District, primarily attributable to DVC.
- COLA of 0.86 percent
  - *Potential impact*: A COLA of 0.86 percent at the resident FTES target of 28,367 will generate $1.1 million in incremental revenue for the District.
- Lottery revenue at $126 per FTES
  - *Potential impact*: Lottery revenue is calculated on total FTES (resident and non-resident). The District is anticipating an increase in lottery funds of $32,000 over the FY 2013-14 Adopted Budget.

Expenditure Assumptions: Delineated below are major expenditure assumptions totaling $5.69 million in increased expenses.

- Worker's Compensation rate decreased from 2.06 percent to 1.77 percent
  - *Potential impact:* This is a finalized rate and no longer an assumption. The Worker's Compensation rate change will save the District $300,000 in FY 2014-15.
- The State Unemployment Insurance Local Experience Charges to decrease
  - *Potential Impact*: As the economy improves, the District sees this cost fall. Expected savings in FY 2014-15 is $75,000.
- Health benefits costs to increase by 14 percent
  - *Potential Impact*: A 14 percent increase in health benefits costs results in $3.8 million in additional expenses to the District. This includes retiree health benefits, which now comprise 42 percent of the anticipated $31 million annual cost of health benefits expenditures.
- Step and column salary increases at 1.2 percent of total salaries
  - *Potential impact:* Step and column increases are projected to cost $1.2 million and include all classes of employees.

- Election costs for one countywide and three local elections
  - *Potential impact:* The three local Governing Board elections in November are estimated to cost $450,000, and the countywide bond election is estimated at $475,000. Total election costs are estimated to be $925,000.
- Utility usage to increase
  - *Potential Impact:* A 3 percent increase is anticipated and results in incremental costs of $110,000 to the District.
- CalPERS rate to increase from 11.442 percent to 11.55 percent
  - *Potential impact:* The projected rate increase creates an incremental expense of $33,000. The final rate will not be known until May 2013.

Other notable, non-incremental expenses include:

- the state unemployment insurance rate will remain unchanged at 0.05 percent;
- the STRS employer contribution rate will remain unchanged at 8.25 percent;
- college subsidies[4] will no longer occur; and
- IT maintenance agreement expenses will remain unchanged.

Any salary increases for FY 2014-15 (which are not included within the expenditure assumptions) will be determined by the formula negotiated through the collective bargaining process.

[4] During the shift to the current District funding model, subsidies were given to the colleges for three years to help with the transition.

7. PROJECTED BUDGET FOR FY 2014-15

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 May Revision, and the District will adjust as necessary.

7.1 FY 2013-14 and 2014-15 Comparison

Table 8 shows a comparison between the projected actuals for FY 2013-14 and the projected Tentative Budget for FY 2014-15. The resident FTES target for FY 2014-15 is 28,367 and is subject to change based upon future Governing Board direction regarding borrowing resident FTES from Summer 2014. Moreover, the budget assumptions will almost assuredly change after the May Revision.

	FY 2013-14 Projected Actuals	FY 2014-15 Projected Tentative Budget	Increase/ (Decrease)
Funded Resident FTES	28,367	28,367	-
Revenues	$168,951,825	$171,784,724	$2,832,899
Expenditures	167,684,126	172,614,431	$4,930,305
Opening Fund Balance	27,962,576	29,230,275	
Increase/(Decrease)	1,267,699	(829,707)	
Reserves	$29,230,275	$28,400,568	$(829,707)

Table 8

7.2 Projected FY 2014-15 Reserves

The reserves shown in Table 9 comprise the operating portion of the unrestricted general fund and tentatively project a FY 2014-15 ending reserve balance of $28,400,568. The table details the distribution of the projected FY 2014-15 ending reserve balance between designated and undesignated categories. College and District Office designations continue to be updated and will change by Tentative Budget.

	2014-15 Projected Tentative Budget
Designated College Reserves	2,526,145
Designated District Office Reserves	77,484
Subtotal, Designated Reserves[5]	**$2,603,629**
5% Contingency Reserve	8,630,721
5% Board Reserve	8,630,722
1% Minimum Location Reserves	1,400,000
Subtotal, Designated Reserves[6]	**$18,661,443**
Undesignated Districtwide Reserve	435,496
Undesignated College Reserves	5,400,000
Undesignated District Office Reserves	1,300,000
Subtotal, Undesignated Reserves[7]	**$7,135,496**
TOTAL RESERVES 6/30/15	**$28,400,568**

Table 9

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

6 Board and Location Reserves: Board Reserve at 10 percent; site reserves at 1 percent per Business Procedure 18.01.

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

8. DISTRICT FISCAL TRENDS

Table 10 provides a three-year income statement for the District's unrestricted, ongoing operating general fund. It also provides a projected income statement for FY 2013-14. Highlights of Table 10 include:

- apportionment revenue is growing but still $4.1 million less than in FY 2010-11;
- increases in local revenue from $14.1 million in FY 2010-11 to $18.0 million in the current year (largely due to the increase in non-resident and international students);
- total salary expenses are projected to be back to FY 2010-11 levels at approximately $104.4 million; and
- benefit costs continue to be a concern with $42.5 million in benefit expenses anticipated in the current year.

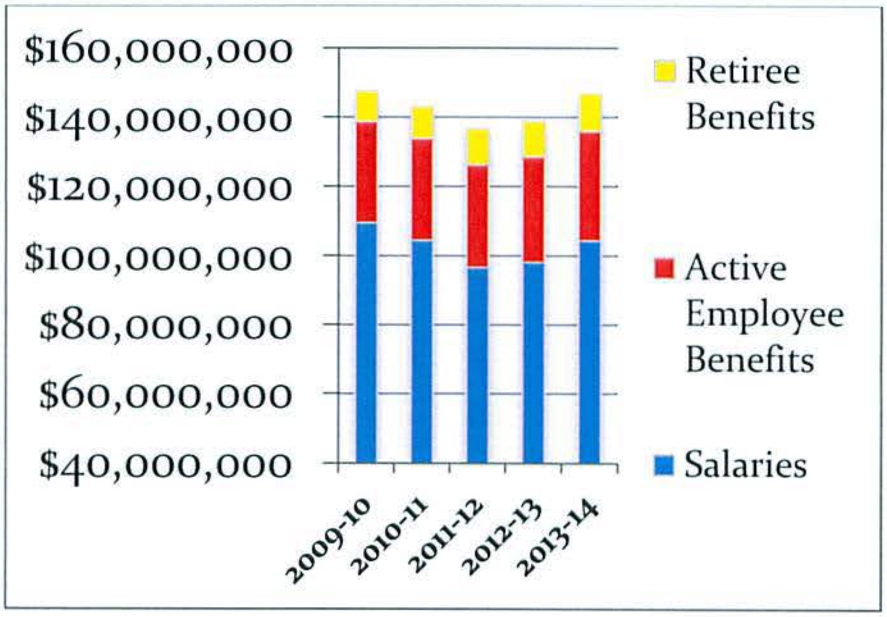
Revenue	Final Actuals 2010-2011	Final Actuals 2011-2012	Final Actuals 2012-2013	Projected Actuals 2013-2014
Apportionment Revenues	147,772,032	134,028,560	137,450,092	143,623,027
Federal Revenues	27,430	5,640	4,629	-
Other State Revenues	4,846,228	4,868,480	6,138,255	6,087,806
Other Local Revenues	14,098,929	15,042,915	16,290,921	18,024,132
Other Financing Sources	1,272,323	1,204,025	738,879	1,216,860
Total Revenues and Other Financing Sources	**168,016,942**	**155,149,620**	**160,622,776**	**168,951,825**
Expenses				
Monthly Instructional Salary	31,904,288	30,616,762	30,449,361	31,266,747
Noninstructional Salaries Full Time	13,183,048	12,533,249	12,147,959	12,401,495
Instructional Salaries Part Time	26,034,427	24,146,936	25,419,225	29,419,697
Noninstructional Salaries Part Time	1,210,427	1,318,281	1,382,237	1,314,894
Total Academic Salaries	**72,332,190**	**68,615,228**	**69,398,782**	**74,402,833**
Noninstructional Salaries Full Time	25,770,125	22,291,828	22,890,288	23,685,000
Instructional Aides Full Time	3,032,183	2,629,719	2,597,213	2,550,074
Variable Non-Instructional	2,273,321	2,234,474	2,417,281	2,692,717
Variable Classroom Aide	834,616	738,154	758,797	867,649
Variable Aide Other	222,270	196,804	183,031	242,597
Total Classified Salaries	**32,132,515**	**28,090,979**	**28,846,610**	**30,038,037**
Benefits	38,658,570	40,053,033	40,771,047	42,515,071
Total Salaries and Benefits	**143,123,275**	**136,759,240**	**139,016,439**	**146,955,941**
Operating Costs	14,852,065	13,622,231	15,708,171	15,391,687
Capital Outlay	689,010	473,733	646,808	659,362
Other Outgo	1,470,686	4,417,210	6,018,550	4,677,136
Total Expenses	**160,135,036**	**155,272,414**	**161,389,968**	**167,684,126**
Revenue Over/(Under) Expense	**7,881,906**	**(122,794)**	**(767,192)**	

Table 10

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 PERS/STRS contributions, FICA, Medicare, etc. For retirees, the cost is entirely for health benefits. Chart 1 shows the past four years of actual salary and benefit costs along with a projection for FY 2013-14. Of note in Chart 1 is:

- salary costs have increased the past two years and are projected to be over $104 million in FY 2013-14, still below the FY 2009-10 peak of $109 million;
- despite salary costs being $5 million less in FY 2013-14 than in FY 2009-10, benefit costs have increased $4.5 million when comparing the two fiscal years; and
- in FY 2009-10, for every dollar spent on salaries, an additional 35 cents was spent on benefits; however, in FY 2013-14 for every dollar spent on salaries, an additional 41 cents is spent on benefits. This is a 17.6 percent increase between FY 2009-10 and FY 2013-14.



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:	*$147.0 million (Projected total benefits at 40.7% of salary)*

Chart 1

By removing payroll taxes (PERS/STRS, FICA, Medicare, etc.) from active employees and comparing only health benefit costs, the picture changes dramatically. Chart 2 shows the health premiums paid by the District on behalf of active and retired employees. Currently, retiree benefit expenses are 42 percent of the total District-paid health premiums.

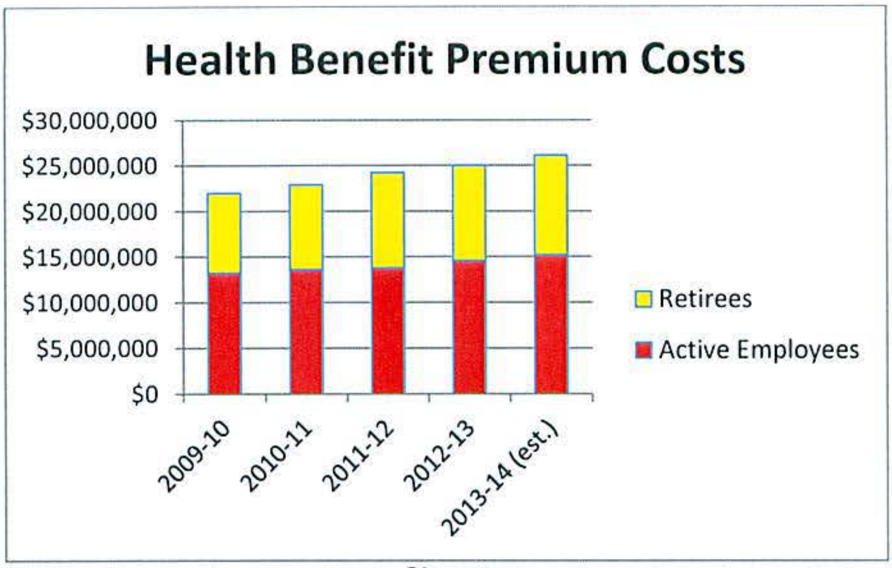


Chart 2

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. Table 11 shows a history of the District's compensated absences. Of note is that the unfunded liability at the end of FY 2012-13 is at a 7-year low.

Banked Load and Vacation Liability Trends

		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
A	Long-Term Debt Reserve	2,739,043	2,750,000	2,750,000	2,750,000	1,674,980	3,369,928	4,471,099
B	Faculty Load Bank Liability	7,300,015	8,500,649	9,124,113	9,088,324	9,521,011	9,247,428	8,914,401
C	Accrued Vacation Liability	4,219,545	4,680,969	4,988,710	4,816,184	4,457,328	4,104,747	4,222,102
D	Unfunded Liability (D = A-B-C)	(8,780,517)	(10,431,618)	(11,362,823)	(11,154,508)	(12,303,359)	(9,982,247)	(8,665,404)
	Changes in Reserve	-	10,957	-	-	(1,075,020)	1,694,948	1,101,171
	Changes in Load Banking Liability	-	1,200,634	623,464	(35,789)	432,687	(273,583)	(333,027)
	Changes in Accrued Vacation Liability	-	461,424	307,741	(172,526)	(358,856)	(352,581)	117,355
	Percentage Change in Unfunded Liability	-	19%	9%	-2%	10%	-19%	-13%

Table 11

The District has dedicated substantial financial resources in recent years to buy this liability down. This dedication manifests itself in an increase in the fund balance from $1.67 million in FY 2010-11 to $4.47 million in FY 2012-13. 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 2012-13, the District had $4.47 million to cover a liability of $13.14 million, a funding level of 34.0 percent.

9. NEXT STEPS

The Governor's revised budget will be released in mid-May 2014. As there is likely to be significant changes in the Governor's May Revision, changes will be made to the Tentative Budget presented to the Governing Board in June for adoption. Analyses and recommendations on borrowing resident FTES from Summer 2014 will be presented to the Governing Board at the June 2014 meeting. A final decision on the District's borrowing strategy will be sought at the July 2014 Governing Board meeting prior to the Adoption Budget being presented to the Governing Board at its September 2014 meeting.

10. CONCLUSION

Community colleges face significant challenges in improving 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 addition, the demand for services is reduced at the same time incremental access funding is available to increase those same services. As the District prepares to face these challenges in FY 2014-15, it must be innovative in marketing the value it provides in order to combat the sluggish enrollment of the past two fiscal years. As Table 12 and Chart 3 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 2012	Lifetime Earnings
Doctoral degree	2.5%	$3,377,920
Professional degree	2.1%	$3,608,800
Master's degree	3.5%	$2,704,000
Bachelor's degree	4.5%	$2,217,280
Associate's degree	6.2%	$1,632,800
Some college, no degree	7.7%	$1,512,160
High school diploma	8.3%	$1,356,160
Less than a high school diploma	12.4%	$979,680

Note: Data are for persons age 25 and over with lifetime earnings over 40 years.
Source: Current Population Survey, U.S. Department of Labor, U.S. Bureau of Labor Statistics.

Table 12

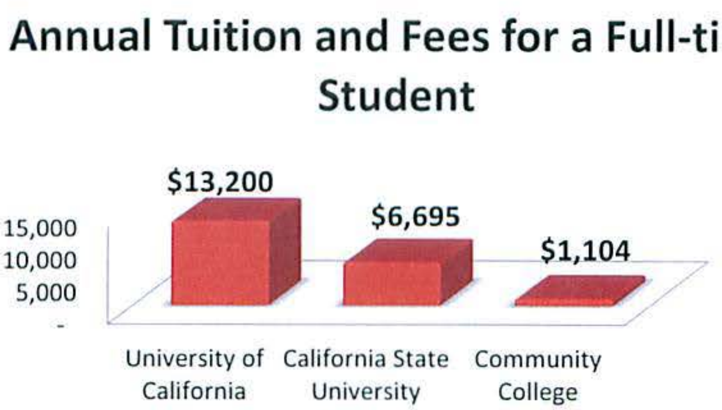


Chart 3

APPENDICES

A. SOUND FISCAL MANAGEMENT CHECKLIST
B. AUDIT FINDINGS FOR FY 2011-12 AND 2012-13
C. 2014-15 BUDGET DEVELOPMENT ASSUMPTIONS
D. THREE-YEAR BUDGET FORECAST
E. FIVE-YEAR EXPENDITURE TRENDS
F. OTHER POST EMPLOYMENT BENEFITS (OPEB) IRREVOCABLE TRUST
G. GLOSSARY

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?	Yes	The District is projected to increase its fund balance by $1.3 million in FY 2013-14.
Has the District controlled deficit spending over multiple years?	Yes	The District has built up the ending fund balance since FY 03-04 primarily by identifying and setting aside one-time, unrestricted revenues.
Is deficit spending addressed by fund balance, on-going revenue increases, or expenditure reductions?	Yes	The District makes a budgetary distinction between "on-going" and "one-time" revenues and expenditures. For FY 2013-14, the District's budgeted on-going expenses are less than on-going revenues, resulting in an anticipated increase 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 $8,642,592 to $27,962,576 in FY 12-13. It is expected that the ending fund balance will remain stable over the next 2-3 years as state revenues are expected to grow.

Is the fund balance increasing due to ongoing revenue increases and/or expenditure reductions?	Yes	The prior increase in fund balance occurred due to a combination of expenditure control in FY 03-04, FY 04-05, & FY 05-06, and revenue increases in FY 07-08, FY 08-09 and FY 10-11 due to restoration in FTES. Passage of Proposition 30 also provides stability for the District.
3. Enrollment		
Is this Area Acceptable?	**Yes**	
Has the District's enrollment been increasing or stable for multiple years?	No	The District's enrollment peaked in 2002-03 and declined until FY 06-07. The District exceeded the funding cap in FY 09-10, FY 10-11 and FY 11-12 due to statewide workload reductions. The District went on stability in FY 12-13 as enrollment declined. Enrollment challenges remain an issue.
Are the District's enrollment projections updated at least annually?	Yes	Enrollment projections are monitored throughout each semester and updated when the CCFS 320 is completed in January, April, and July.
Are staffing adjustments consistent with the enrollment trends?	Yes	The course schedule at each location determines the staffing levels per term. In addition, enrollment trends drive the level of managers, classified and other non-instructional personnel.
Does the District analyze enrollment and full-time equivalent student (FTES) data?	Yes	The colleges and Cabinet review current trends and develop both college and District projections.
Does the District track historical data to establish future trends between P-1 and annual for projection purposes?	Yes	The District produces periodic reports of enrollment trends and utilizes multi-year analyses in developing projections.
Has the District avoided stabilization funding?	No	The District has received stabilization funding in FY 04-05, FY 08-09 and FY 12-13. The District exceeded its funded FTES in FY 09-10, earned all available growth in FY 10-11, and exceeded its cap in FY 11-12.
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 2% salary increase in FY 13-14, the first salary increase since FY 08-09. Approved contracts are in place for United Faculty through FY 13-14 and for Local One (classified staff) through FY 15-16.
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 has made significant budget reduction since FY 2010-11, which was partially why the increase is sustainable.
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 2012-13, the percentage of the general Fund that was expended for salaries and benefits was 89%. In 2013-14, 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	For the majority of the District's transactions, there were adequate controls to insure the integrity of the 2012-13 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 is in the process of developing 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 2012-13 records were complete prior to the District audit and the close of the fiscal year is being done timely.
Are the county and state reports filed in a timely manner?	Yes	All reports are submitted to reporting agencies by their appropriate deadlines.
Are key fiscal reports readily available and understandable?	Yes	Many reports are available on the District's web site as part of the agenda materials provided to the Governing Board. Commonly requested documents, such as budget and audits, are also available on 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	Most long term debt is held in the 2002 and 2006 bonds. The District recently made the final issuance of $140.5 million for the 2006 bond; this will increase long-term debt. However, the long-term debt associated with the bond programs is paid through tax levies and not truly District debt. Load banking

		and vacation unfunded liabilities have decreased from $12.3 million to $8.6 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 monthly reports comparing the revenues and expenditures to budgeted amounts, and the percentage received/spent (to-date) to the percentage of the year completed.
12. Retiree Health Benefits		
Is this Area Acceptable?	**Yes**	
Has the District completed an actuarial calculation to determine the unfunded liability?	Yes	The last actuarial calculation was performed in November 2013. The District's unfunded liability is at $178 million, down from $262 million at a prior study.
Does the District have a plan for addressing the retiree benefits liabilities?	Yes	By the end of FY 13-14, the District will have set aside over $60 million toward funding this liability. The District selected a financial advisor, appointed a Retirement Board of Authority, prepared a substantive plan, and has funded between $8.8 - $9.1 million each year since FY 08-09 into an irrevocable trust. There is a current market value of over $61 million within the irrevocable trust.
13. Stable Leadership		
Is this Area Acceptable?	**Yes**	
Has the District experienced recent turnover in its management team (including Chief Executive Officer, Chief Business Officer, and Board of Trustees)?	Yes	The Chancellor is in her ninth year and has been with the District for over 20 years. Each of the District's two Executive Vice Chancellors has been with the District for over 10 years. The Governing Board has five members, one elected in January 2010; two elected in November 2012; one appointed in October 2013, and one who has served for twenty years.
Does the District compile annualized revenue and expenditure projections throughout the year?	Yes	The Board receives quarterly financial statements on all funds of the district and periodic "Fiscal Trends" reports comparing the revenues and expenditures to budgeted amounts, and the percentage received/spent (to-date) to the percentage of the year completed.

APPENDIX B
AUDIT FINDINGS FOR FY 2011-12 AND 2012-13

The annual financial audit for the District conducted by James Marta & Co. for FY 2012-13 reported 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. Of note, all the findings from the FY 2011-12 audit were found to be implemented by the auditors.

Audit Findings for FY 2011-12

2011-12 Audit Findings	Description of Finding	District Action	Responsible Managers	Target Date of Completion	Results
2012-1	Cash in the county treasury did not match the cash within the District's general ledger.	The District adjusted its cash upwards $1.2 million to align with the county treasury. Ongoing cash reconciliations are being done.	Director of District Finance Services	June 2013	Implemented
2012-2	The satisfactory academic progress policies at each college were missing required federal components.	The District immediately corrected this issue and all campuses are now in compliance.	Director of District Finance Services and college financial aid directors	June 2012	Implemented
2012-3	Student financial aid verification policies and procedures at each college were missing required federal components.	The District immediately corrected this issue and all campuses are now in compliance.	Director of District Finance Services and college financial aid directors	June 2012	Implemented

Audit Findings for FY 2012-13

There were no audit findings in FY 2012-13

APPENDIX C

2014-15 BUDGET DEVELOPMENT ASSUMPTIONS

Key Budget Assumptions - 0.86% COLA, 0% Growth FTES, 14% increase in H/W

Unrestricted General Fund

FTES		13/14 Budget	14/15 Preliminary Budget Assumptions
	Resident Credit rate	$ 4,636.50	$ 4,676.37
	Resident Non-Credit rate	$ 2,788.06	$ 2,812.03
	Resident Credit target	28,288.84	28,288.84
	Resident Non-Credit target	77.33	77.33
	Resident Credit - funded	28,288.84	28,288.84
	Resident Non-Credit - funded	77.33	77.33
	Non-Resident Target	2,493.00	2,750.00

Revenue Assumptions		13/14 Budget	14/15 Preliminary Budget Assumptions
1.	**FTES (Resident)**	28,366	28,366
2.	**FTES (Non-Resident)**	2,493	2,750
	Revenue (No increase in tuition rate)	$12,321,779	$13,594,305
3.	**COLA**	1.57%	0.86%
4.	**Lottery, unrestricted**	$126	$126
	Revenue Generated	$3,888,255	$3,920,637
5.	**Lottery, Prop 20 Restricted**	$31	$31
	Revenue Generated	$956,634	$964,601
6.	**Deficit (property taxes/enrollment fees)**	0.5%	0.5%
	Reduction in Revenue	($721,546)	($727,751)

Expenditure Assumptions		13/14 Budget	14/15 Preliminary Budget Assumptions
1.	**Salary Increase**	2.0%	0%*
2.	**Step/Column Annual Average Increase**	1.2%	1.2%
3.	**Health and Welfare (H&W)**		14.00%
	Active Employees	$ 16,193,678	$ 18,460,793
	Retirees	11,150,273	12,711,311
		$ 27,343,951	$ 31,172,104
4.	**Payroll Taxes**		
	PERS Rate	11.442%	11.550%
	PERS Safety Rate (Police)	25.994%	26.150%
	STRS Rate	8.250%	8.250%
	Worker's Compensation Rate	2.066%	2.066%
	State Unemployment Insurance (SUI) Rate	0.050%	0.050%
5.	**Districtwide Assessments and Other Expenses**		
	Utilities *(Research is being done for Adoption Budget)*	$ 3,744,966	$ 3,857,315
	Property & Liability Insurance	1,275,000	1,300,000
	IT Maintenance Agreements	1,000,000	1,000,000
	Retiree Health Benefit Annual Contribution	1,000,000	1,000,000
	Legal Costs	450,000	400,000
	Election Costs (Three local and one countywide election)	10,000	925,000
	Student Accident Insurance/Student Assistance Program	310,000	320,000
	Audit	185,000	192,000
	SUI Experience Charges	225,000	150,000
	Self-Insurance Annual Contribution	100,000	100,000
	College Subsidies	447,465	-

*Any salary increases for FY 2014-15 will be determined by the negotiated formula through the collective bargaining process

Appendix D
Three-Year Budget Forecast

Contra Costa Community College District
Three Year Budget Forecast*
2014-2015 Fiscal Year and Beyond

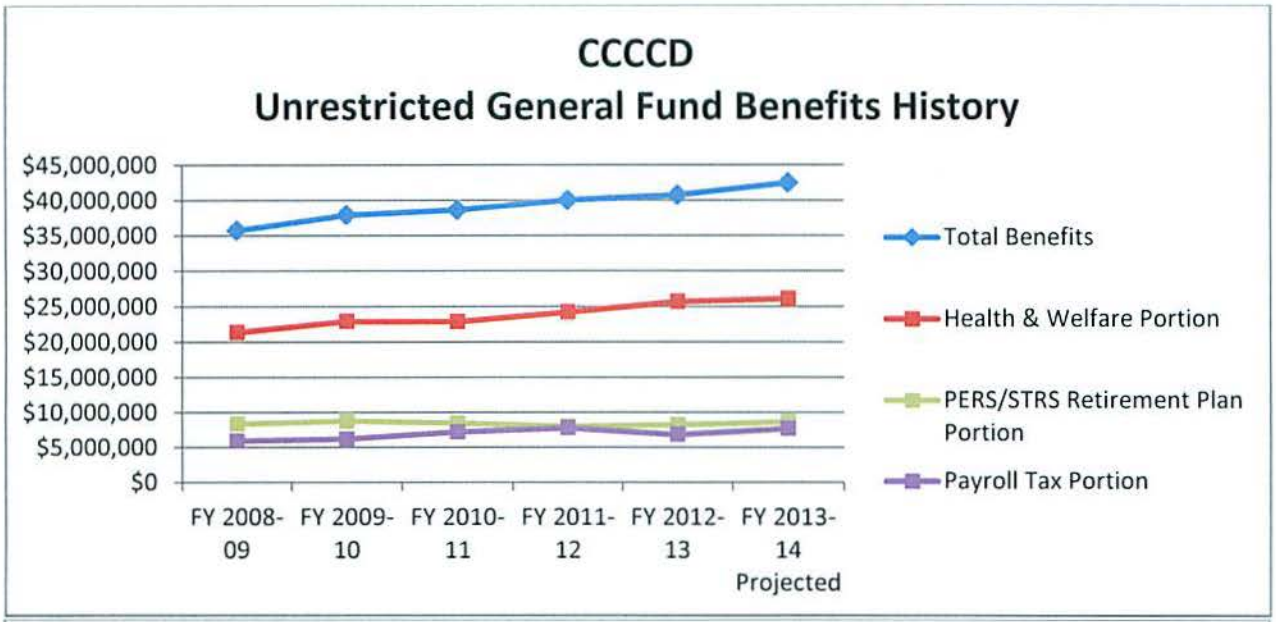
Unrestricted, Ongoing General Fund

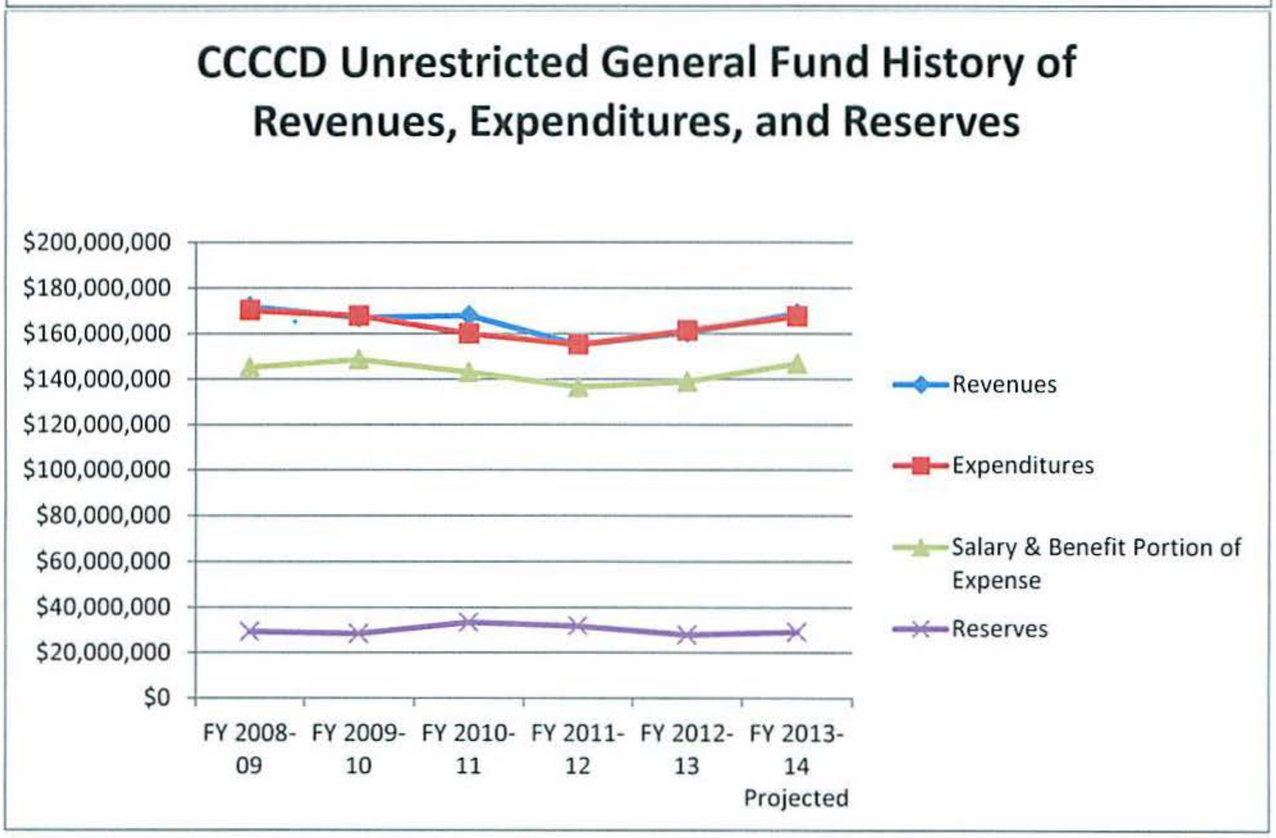
		0% Growth, 0.86% COLA *28,367 FTES* **FY 2014-15**		*1% Growth, 1% COLA* *28,651 FTES* **FY 2015-16**		*2% Growth, 2% COLA* *29,224 FTES* **FY 2016-17**
Base Revenue	$	170,650,044	$	171,784,724	$	174,711,009
COLA Revenue		1,134,680		1,596,597		3,276,280
Growth Revenue		-		1,329,688		2,760,714
Revised Revenue	**$**	**171,784,724**	**$**	**174,711,009**	**$**	**180,748,003**
Budgeted Ongoing Expenses	$	167,493,794	$	172,662,431	$	176,107,454
Step/Column Increases		1,248,000		1,262,976		1,278,132
Health Benefits Cost Increases		3,920,637		2,182,047		2,334,791
Revised expenditures	**$**	**172,662,431**	**$**	**176,107,454**	**$**	**179,720,377**
Revenue less Expense	**$**	**(877,707)**	**$**	**(1,396,445)**	**$**	**1,027,626**
Potential Expenditure Reductions		-		-		-
Beginning fund balance	$	29,230,275	$	28,352,568	$	26,956,123
Estimated Ending Balance		**28,352,568**		**26,956,123**		**27,983,749**
Amount of Fund Balance Spent	**$**	**(877,707)**	**$**	**(1,396,445)**	**$**	**1,027,626**

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

Key Assumptions

1% Growth in FY 2015-16 and 2% Growth in FY 2016-17
1% COLA in FY 2015-16 and 2% COLA in FY 2016-17
Step/Column increases at 1.2% each year
Health Benefit increases in FY 2015-16 and FY 2016-17 at 7% each year


CCCCD
Unrestricted General Fund Benefits History
$45,000,000
$40,000,000
$35,000,000
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
FY 2008-09
FY 2009-10
FY 2010-11
FY 2011-12
FY 2012-13
FY 2013-14 Projected
Total Benefits
Health & Welfare Portion
PERS/STRS Retirement Plan Portion
Payroll Tax Portion


CCCCD Unrestricted General Fund History of Revenues, Expenditures, and Reserves
$200,000,000
$180,000,000
$160,000,000
$140,000,000
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$0
FY 2008-09
FY 2009-10
FY 2010-11
FY 2011-12
FY 2012-13
FY 2013-14 Projected
Revenues
Expenditures
Salary & Benefit Portion of Expense
Reserves

APPENDIX F
OTHER POST EMPLOYMENT BENEFITS (OPEB) IRREVOCABLE TRUST

Actuarial Study on Retiree Health Benefits: Biennially, the District is required to conduct an actuarial study to evaluate its retiree health benefit liability. The District contracted with Total Compensation Systems for this actuarial study, and a presentation on its findings was given to the Governing Board in January 2014. Listed below are the highlights of that study, indicating:

- a small decrease of 1.9 percent in the actuarial accrued liability (AAL)[1]; and
- a decrease in the annual required contribution (ARC) for the District from $18.1 million to $16.6 million.[2]

Irrevocable Trust for Retiree Health Benefits: During the same January 2014 Governing Board presentation, information on the District's irrevocable trust for retiree health benefits was provided. Key metrics from that presentation and up-to-date market value information indicate the irrevocable trust's:

- 2013 rate of return was 10.41 percent;
- annualized rate of return since inception has been 9.24 percent;
- realized gain is over $12 million since inception; and
- market value of assets was $61.1 million at the end of February 2014.

The non-profit, stand alone, Government Accounting Standard Board (GASB) was created for and charged with developing and issuing accounting standard guidelines for all forms of government public entities. Professional services organizations such as accounting, actuarial and consultant firms interpret the GASB guidelines and provide the guidance to assist the public entity in the development and implementation of a GASB 43 & 45 process for the funding of eligible retiree other post employment benefits (OPEB).

The following chart illustrates the major GASB 43 & 45 actuarial valuation categories which accounting, actuarial and consultant firms are to calculate, audit and assist in the implementation for the funding of the public entity's GASB liability. The District's actuarial valuation periods covered in the following chart are for the past four biennial, actuarial valuation calculation periods.

GASB 43 and 45 Actuarial Valuation Categories[3]

VALUATION ITEM	6/30/2006	6/30/2008	%	11/4/2011	%	11/4/2013	%
Actuarial Present Value of Total Projected Benefits (APVTPB)	$409,918,400	$321,023,400	(21.7)	$227,511,149	(29.1)	$221,347,268	(2.7)
Actuarial Accrued Liability (AAL)	$335,136,700	$262,768,400	(21.6)	$182,053,694	(30.7)	$178,551,353	(1.9)
Current-Year Retiree Benefit Premiums (Pay-Go)	$ 7,786,500	$ 7,919,600	1.7	$ 9,657,456	21.9	$ 9,704,677	0.5
Added Cost	$ 20,040,600	$ 15,370,600	(23.3)	$ 8,437,699	(45.1)	$ 6,859,712	(18.70)
Annual Required Contribution (ARC)	$ 27,827,100	$ 23,290,200	(16.3)	$ 18,095,155	(22.3)	$ 16,564,389	(8.5)
Discount Rate	3.50%	4.50%		6.65%		6.70%	

1 The District's AAL is stable at this point and should not have significant swings.

2 The District has fully funded its ARC since FY 2009-10 and has sufficient funds to continue to fully fund the ARC through FY 2014-15.

3 This table is a representative summarization of all the District's actuarial studies.

APPENDIX G
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.