CONTRA COSTA COMMUNITY COLLEGE DISTRICT
BUDGET UPDATE

Federal Relief

In response to the unprecedented national emergency, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a $2.2 trillion economic relief package in support of individuals and businesses affected by the pandemic. Signed into law by the President on March 27, the CARES Act is the largest economic stimulus package in U.S. history and amounts to approximately 10 percent of total annual U.S. gross domestic product (GDP). Included in the legislation is nearly $14 billion in a Higher Education Emergency Relief Fund to assist institutions of higher education in defraying expenses, offsetting lost revenue, and providing emergency grant relief to students. These funds are allocated nationwide based on a formula that weighs heavily the number of Pell grant recipients an institution serves. Each higher education institution, through an existing federal grant system, must apply for these funds.

The California community colleges will receive $580 million of the $14 billion relief fund, representing 4.6 percent of the nationwide total. The District has applied on behalf of each of its three colleges for the first round of funding that has been made available. This first round is 50 percent of the total funding ($290 million for the California community college system) and is to be used entirely as direct financial aid to students. This includes, but is not limited to, eligible expenses related to a student's cost of attendance as defined by federal law. This definition includes housing, food, technology, supplies, transportation, fees, dependent care, tuition, health care, and miscellaneous expenses. The allocations for this first round of CARES funding, dedicated exclusively to student financial assistance, for the colleges total $6.5 million and are shown in Table 1.

CARES Act Funding – Student Financial Aid

CCC	$ 1,238,944
DVC	3,339,639
LMC	1,919,486
District Total	6,498,069

Table 1

This $6.5 million is welcome relief for students struggling to meet basic needs. At the same time, significant work is required to design a local financial aid program that targets the students most in need. To that end, a districtwide taskforce has already met to discuss best practices and develop a framework to quickly and efficiently get these dollars into the hands of students. The methodology for the distribution of $6.5 million in student financial aid will be decided upon in the near future.

The remaining 50 percent of CARES Act funding for higher education is expected to become available within the next few weeks. While the federal government has issued no official guidance, the strong expectation is institutions will have significant flexibility expending these funds. As a point of reference, $6.5 million is greater than 3 percent of the District's operating budget; clearly this funding could help mitigate the as-of-yet unknown potential reductions in state apportionment. Table 2 shows the institutional share of the CARES Act funding, with allocations matching the financial aid portion.

CARES Act Funding – Institutional Aid

CCC	$ 1,238,944
DVC	3,339,639
LMC	1,919,486
District Total	6,498,069

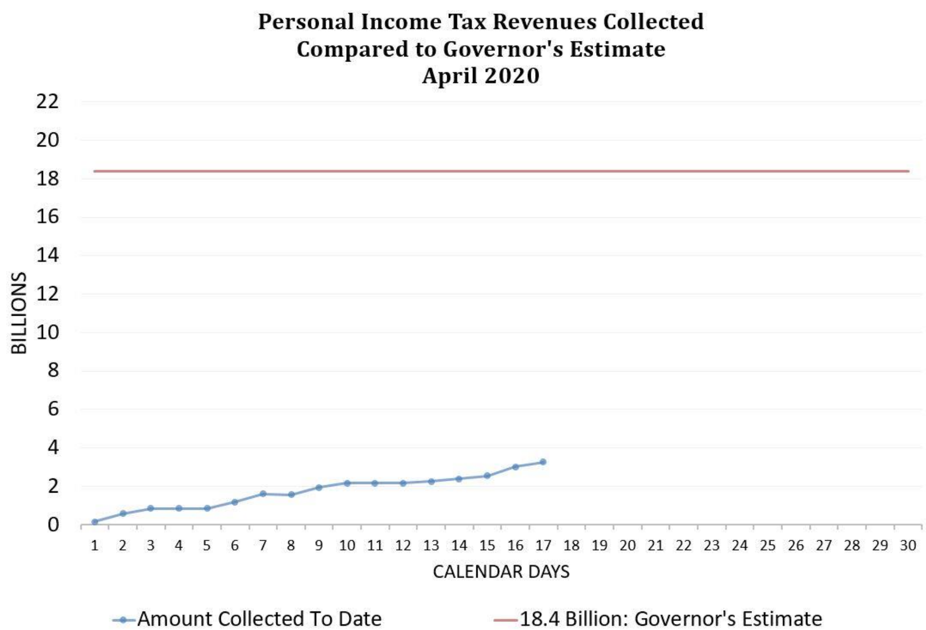
Table 2

Interestingly, the CARES Act funding for Higher Education bypasses the state and, therefore, the State Chancellor's Office (SCO) and comes directly to the District. With talk of additional federal economic stimulus packages targeting the enormous potential state and local government revenue shortfalls, it is conceivable that further assistance from the federal government funneled through the state will occur. In such an event, advocacy at the federal and state level for continued higher education financial relief is crucial in any future economic stimulus packages.

State Budget

Recent reports from the Department of Finance indicate the Governor's May Revision will be a "workload" budget that reflects current year spending and service levels. The intent is for the legislature to pass this placeholder budget by June 15, 2020, and then reconvene later in the summer to review and adjust to the fiscal reality. Frankly, with the state pushing back the tax filing deadline to July 15, 2020, and most counties waiving any penalties for property tax payments made after April 10, 2020, the revenue situation for the current year will be unclear until late summer.

Further, the month of April historically is the state's highest month of the year for personal income tax (PIT) receipts, accounting for 20 percent of all PIT revenue for the entire year. PIT is also the largest contributor to the state budget, making up nearly 70 percent of the total revenue. With the shutdown resulting in substantial numbers of individuals out-of-work combined with the tax filing extension, the anticipated $18.4 billion in PIT collections in April is falling woefully short. Graph 1 illustrates the daily PIT receipts reaching just $3.2 billion more than halfway through the month.



Graph 1

Undoubtedly, the enormous gap between projected and actual revenue will continue at least in the near term and creates significant challenges as the state attempts to balance priorities. Fortunately, the state is better equipped to handle a recession than it was in 2008. The Rainy Day Fund currently has over $16 billion available; withdrawals from this fund must be approved by the legislature. Further, only half of the total can be utilized in any given fiscal year. Nevertheless, this substantial reserve provides a level of support to mitigate potential reductions that did not exist in 2008. Moreover, if the federal government provides additional stimulus relief for state and local governments, the revenue decline could be further mitigated.

As mentioned, legislators expect to reconvene in late summer to amend the budget for FY 2020-21 when the financial environment is more certain. The priorities for the community college system under a reduced revenue scenario include the following.

- Fund operating first and defer everything else. This could include a freeze or reduction in categoricals and elimination of one-time items such as scheduled maintenance and instructional equipment.
- Extend the hold harmless provision for two years through FY 2022-23.
- Backfill shortfalls in property taxes and enrollment fees in FY 2019-20 and recalibrate expectations for collections of these dollars in FY 2020-21. There is concern that a large deficit factor could emerge and the system is asking the state to compensate for that shortfall.
- Defer increases in employer-paid pension obligations. This is made more difficult due to the recent stock market losses adversely affecting the pension systems' portfolios.
- Utilize the Rainy Day Fund and prioritize its use to support the Proposition 98 guarantee.

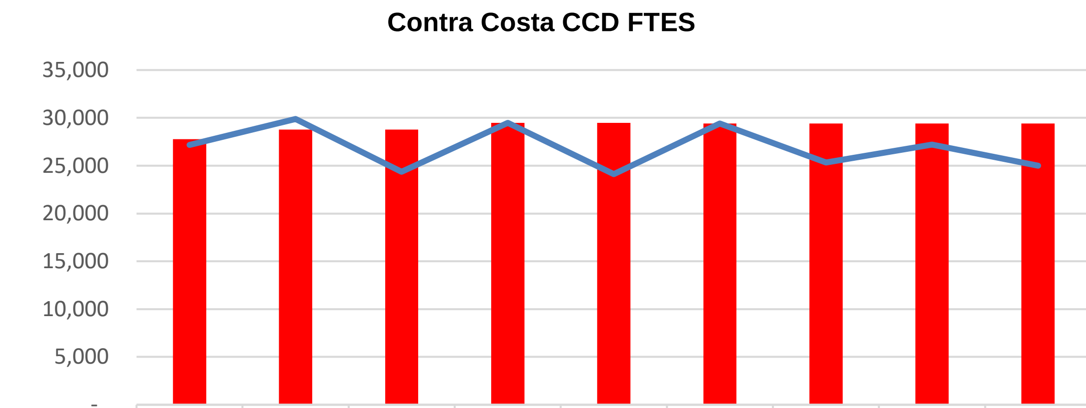
Additionally, the Community College League of California has polled districts to determine their ability to withstand deferral payments. In the last recession, the state minimized workload reductions by pushing payments into future fiscal years. For many districts this created cash flow hardships. Although not ideal, deferrals are superior to workload reductions and the District has sufficient cash to adjust to this practice.

District Budget

District Office staff continue to move forward with the original budget assumptions for the Tentative Budget. In a recent meeting with District Governance Council (DGC), these assumptions were reviewed with the understanding that potentially significant modifications would occur for the Adoption Budget. DGC serves as the districtwide budget committee and understands that approving the Tentative Budget by June 30th is legally required.

For the Adoption Budget, much is dependent upon external factors at the state and federal level. If additional federal assistance is provided to the state, it is conceivable some of that money may go to the Proposition 98 guarantee. Complicating matters considerably at the state level, however, is the Student Centered Funding Formula (SCFF). The application of workload reductions under the SCFF has yet to be tested and there was already heated debate on how mechanically that would even work, particularly for "hold harmless" districts. District staff simply do not know nor can anticipate how the SCO will apply funding reductions under the SCFF.

Additionally, while operating under the "hold harmless" provision, any increases in full-time equivalent students (FTES) will have no financial benefit in FY 2020-21. This was true before the pandemic but it takes on significantly more meaning in an environment where apportionment reductions seem nearly certain. With summer 2020 term fast approaching, it is critical for the District to position itself to operate in a reduced revenue environment. No matter what level of FTES is attained in FY 2020-21, the District will receive the same apportionment revenue from the state (whatever that may be). Essentially, the principles of the borrowing and stability cycle the District practiced for so long still are in play in FY 2020-21. Graph 2 illustrates that effect, with the District's funded FTES (red bars) remaining steady throughout the years despite large year-over-year fluctuations in reported FTES (blue line).



	FY 2012-13 (stability)	FY 2013-14 (borrowing)	FY 2014-15 (stability)	FY 2015-16 (borrowing)	FY 2016-17 (stability)	FY 2017-18 (borrowing)	FY 2018-19 (hold harmless)	FY 2019-20 (hold harmless)	FY 2020-21 (hold harmless)
Funded	27,782	28,773	28,773	29,489	29,489	29,418	29,418	29,418	29,418
Actual	27,166	29,883	24,377	29,489	24,116	29,418	25,327	27,200	25,000

Graph 2

District staff find it implausible that "hold harmless" districts would not share in broad apportionment reductions for the system. With wide ranges in potential reductions being tossed around (5 to 15 percent), the District could experience a $10-$30 million loss. Whatever that loss ultimately ends up being, the actual enrollment the District achieves in FY 2020-21 will not matter. As noted previously, helping to offset any loss is $6.5 million in operational support from the federal government. How best to utilize those federal funds is an ongoing conversation that will largely be informed by yet-to-be-released federal guidance.

In broad terms, District staff are looking at a wide range of scenarios and considering options to address each of them. However, it is difficult to make informed decisions when so many critical variables remain unknown. In such an environment, it is vital that continued collaboration occur with constituency groups and transparency remain high.

From a budgetary and financial perspective, some of the items being discussed amongst District leadership include:

- Loss in state apportionment funding;
- categorical program reductions;
- a potential change to the FTES target;
- revenue losses from self-funded operations like the bookstore, cafeteria, and parking;
- paying for the necessary training so instructors are adequately prepared to teach online; and
- the likely substantial decrease in international students and the associated tuition dollars.

Not all news is bad. Health benefit increases came in lower than assumed with an increase of just 1.5 percent year-over-year. Additional work and progress is being made on incentives for employees to enroll in high deductible health plans with health savings accounts. An organized effort to reach out to retirees to switch to a Medicare coordinated plan is paying dividends. More federal assistance could be coming. Overall, like the state, the District has positioned itself well to weather a recession and has several advantages it did not have in 2008. These include:

- $120 million in an irrevocable trust that can be used to pay all or a portion of the nearly $14 million in annual retiree health benefit premiums;
- fully funded compensated absence liability, with greater than $16 million in available cash;
- significant balances in local capital funds; and
- strong Board Policies on reserves resulting in fund balances that will allow the option for state apportionment deferrals, if needed.

As additional information becomes available, District staff will share what it learns with the Governing Board.