

2013-14 TENTATIVE BUDGET

OVERVIEW

The 2013-14 Tentative Budget is based on the appropriations for community colleges contained in the Governor's Budget as amended in May (May Revise). The details of the Governor's proposal and the May Revise are discussed below. The Unrestricted General Fund, which accounts for our primary operating costs, is based on our best estimate of how the State's budget will affect our revenues.

The state's economy is improving with unemployment decreasing and housing values increasing. The state has addressed its structural budget deficit and has balanced its budget with additional funding proposed for community colleges. This is the first time in the last five years that the college is not faced with funding cuts from the state. The budget for community colleges has been augmented \$227 million which includes funding for a 1.57% COLA, 1.63% enrollment restoration and \$50 million for matriculation services to implement some of the Student Success Task Force recommendations.

The College's Tentative Budget is based on the May Revise. The college has also addressed most of its structural budget deficit and is balanced with only a couple major items outstanding that will require additional funding; the one percent deferred pay raise that was agreed with employee groups four years ago and the funding of new budget requests. Revenue augmentations to the college's budget include the 1.57% COLA (\$1.097 million), growth revenues earned in 2012-13 (\$570K), \$167K of other state revenue, and an increase in non-resident tuition (\$200K). Revenue reductions include a reduction in interest income (\$125K) and the \$352K Blue Shield rebate used to balance last year's budget. Overall revenues are approximately \$1.575 million more than last year. The Tentative Budget restored the 1 ¼% pay cut employees took in 2012-13 and the cuts made by the Budget Reallocation subcommittee in 2012-13. In addition, the budget was augmented for step and column, five additional full time faculty hires and other exempt cost line items. Major savings within the budget were realized in unemployment insurance, the 2008-09 retirement incentive which was paid off in 2012-13 and the review of the discretionary accounts with budgets over \$6,000.

The Tentative Budget is balanced with the exception of the one percent deferred pay raise and the funding of new budget requests. The Tentative Budget assumes that the college will end the year with the same level of reserves as 2011-12. Outstanding items that may affect the budget other than the adoption of the state budget include the health plan renewal rates, the funding of new budget requests, the appeals from TOPS managers on the budget cut recommendation from the Budget Reallocation subcommittee (over \$6,000 account review) and the negotiation of the 2012 Blue Shield rebate and changes to the district health plans.

Following is a summary of our Unrestricted General Fund. While the Restricted General Fund and other Funds are contained in the Tentative Budget so that authority may be given to begin expending funds, these budgets are still in development and, therefore, are not discussed at this time.

STATE FINANCES

Governor Brown released his 2013-14 budget proposal on January 10, 2013. With the passage of Proposition 30 and the improvement in the economy, the state is no longer faced with a structural budget shortfall. As a result, after four years of state budget cuts, the Governor proposed increasing the budget for community colleges by \$579 million for 2013-14. Highlights of the Governor's proposal were as follows:

- \$196.7 million in increased apportionment funding. Board of Governors should develop a proposal on the allocation of these funds (e.g. enrollment restoration or COLA)
- \$179 million to buy down existing deferral. Although this is not additional funding for community colleges, more funds would be received before June 30th. Total deferral would be lowered from \$801 million to \$622 million.
- \$49.5M to support energy efficiency efforts pursuant to the recently passed Proposition 39 ballot initiative. The Governor intends community colleges to expand career technical educational training and on-the-job work experience training in partnership with the California Conservation Corps and participating community conservation corps programs.
- \$16.9M to enhance online education efforts in the community colleges, including the creation of a centralized Virtual Campus into a single hosting system, so students could find online courses and access 24/7 support through a common portal. The proposal would further expand and enhance credit by exam options to make it possible for students to earn credit for core SB 1440 Transfer Degree courses and also for remedial coursework.
- \$300M in a shift of responsibility for Adult Education from K12 to the CCCs. These dollars would be provided to districts in a block grant based on students served in core instructional areas.
- \$15.7M in a shift of responsibility for apprenticeship programs from K12 to CCCs.
- Replace long-standing provisional language concerning the funds for the Economic and Workforce Development Program with a requirement that the Chancellor's Office submit an annual expenditure to the Department of Finance for approval.

The Governor's proposal also includes some significant policy changes:

- A 5-year phase-in of funding apportionments on completion rather than on census date enrollment. Unlike previous proposals, though, this is intended to be cost neutral, as districts funding lost through apportionment would be shifted to student support efforts such as the Student Success and Support Program (formerly known as Matriculation).
- A 90-unit cap for students. Under this proposal, no state support would be provided for students that have exceeded 90 units. Students taking courses above the cap would be required to pay the full cost of instruction, with some provision for case-by-case waivers.
- Part B BOG fee waivers to require students to complete a FAFSA and include the income of both parents and the student to determine eligibility.

May Revise:

On May 14, 2013, Governor Brown released his May Revision budget proposal. Major changes from the January proposal included the following:

1. Programmatic Funding

- \$227 million augmentation in programmatic funding. This is an increase of \$30 million over the January proposal.
- Allocation of the \$227 million would be as follows:
 - \$87.5 million for COLA (1.57%)
 - \$89.4 million to restore access (1.63%)
 - \$50 million for the Student Success and Support Program (Matriculation program) with an allowance that up to \$7 million could be shifted for e-transcript and e-planning tools.

2. Policy Proposals

- 90-unit cap proposal withdrawn
- Change in census date funding formula to course completion model withdrawn
- Allow one term grace period for completion of FAFSA

3. Adult Education

- Initial proposal was withdrawn
- \$30 million to be spent over 2 years for planning of transfer of adult education to community colleges
- \$500 million to be appropriated in 2015-16
- Program to be funded at the Career Development College Preparation (CDCP) rate

4. Deferral Buy Down

- An additional \$64.5 million to further buy down the apportionment deferral in 2013-14. This would reduce the system-wide deferral to \$557.5 million.

The Legislative Analyst Office projects that state tax revenues are exceeding the 2012-13 budget amounts by \$4.5 billion in 2012-13. The Governor only included approximately \$1.3 billion in the May Revise as it is thought that much of this surplus is a one-time increase due to tax payers selling investments to avoid the increase in federal capital gains taxes in 2013. Both the Assembly Budget Subcommittee and the Senate Assembly Budget Subcommittee have developed budget proposals based on higher revenue estimates.

Legislative Budget Subcommittee Proposals

Both the Assembly and Senate Budget Subcommittees have developed budget proposals. Although both houses are proposing additional funding over the May Revise, the houses took significantly different approaches which will be reconciled in the conference committee process. The Assembly chose to use more one-time funds to pay down the deferral in the current year and then allocated

significant funds for most categorical programs. The Senate Budget Subcommittee took a much more conservative approach, providing \$30 million in one-time funds (Instructional Equipment, Scheduled Maintenance and Professional Development), smaller augmentations to categorical programs than the Assembly and paying down more of the deferral. Following is a chart comparing each proposal:

2013-14 State Budget Proposals
(in \$ millions)

<u>Item</u>	<u>May Revise</u>	<u>Senate</u>	<u>Assembly</u>
COLA	1.57%	1.57%	1.57%
Enrollment Restoration	1.63%	1.63%	1.61%
2012-13 Deferral Buy Down	180.0	248.0	220.0
2013-14 Deferral Buy Down	64.0	116.0	18.0
Instructional Equipment		12.0	
Scheduled Maintenance		12.0	
Professional Development		6.0	
Categorical Programs:			
Basic Skills	20.0	20.0	33.6
Student Financial Aid	67.5	68.1	72.1
EOP&S	64.3	89.3	117.2
CARE	9.3	10.6	17.0
DSP&S	69.2	94.2	126.8
CalWORKS	26.7	34.5	44.3
Matriculation	99.2	99.2	127.7
PT Health	0.5	0.8	1.0
PT Parity	24.9	24.9	51.6
PT Office	3.5	5.9	7.3
Nursing	13.4	13.4	22.4

The Conference Committee is working on reconciling the differences between the proposals and approving one proposal to be presented to the Governor for approval. While there are major differences between the houses and between the Legislature and the governor, it is expected that the budget will be completed by June 15th.

BUDGET DEVELOPMENT PROCESS

The 2013-14 Tentative Budget was also developed along the guidelines of the Administrative Regulation 3110, District’s Budget. These guidelines included the following:

- 1) Each functional unit (President’s Office, Instruction, College Services, Administrative Services, Human Resources, and Information Technology) receives an allocation based on the preliminary revenue projections developed by staff and reviewed with the Budget Review Committee. After funding a five percent (5%) General Reserve and the

”Exempt Cost” line items (expenses that benefit the entire college and cannot be controlled by the TOPS manager e.g. utilities, insurance and benefits), a rollover budget (the “turn-around” document) is distributed to the TOPS managers. TOPS managers can transfer funds as long as their total budget fits within their allocation.

- 2) A new process was developed for funding budget requests in an effort to address the Accreditation Report and to strengthen the link between planning and resource allocation. Items that need additional funding are initiated through a Program Review report or College plan. These requests are reviewed by either the Institutional Planning Coordinating Committee (IPCC) or program Review for validation. After validation, the requests are forwarded to their respective Governance Committee (Academic Affairs, Student Affairs, Administrative Affairs, and CCCC’s). The prioritized requests are then forwarded to the Budget Committee for funding.
- 3) The Budget Committee reviews all requests to determine which ones are “Must Do” requests and provides funding.
- 4) An expanded Budget Committee will meet to review the other requests from each Governance committee to develop a consolidated list of budget request in priority order.

Based on these guidelines, \$359 thousand of Exempt Cost augmentations were made. A detailed list of the Exempt Cost augmentations is discussed later in this document.

In an effort to identify savings within the Rollover Budget, the Budget Reallocation Subcommittee again convened to review all discretionary accounts (permanent position and benefit accounts excluded) with a budget over \$6,000. TOPS managers with accounts within these parameters were required to justify and explain the use of these accounts to the sub-committee. Through this process, the Budget Reallocation Subcommittee recommended budget cuts to accounts that resulted in a \$1.215 million savings. This recommendation is currently being reviewed by the Budget Committee with TOPS managers given the opportunity to appeal the recommendation by providing additional information.

The Strategic Master Plan Committee (Team A) has approved annual goals which will be used by the Expanded Budget Committee to prioritize funding for new budget requests. These annual goals are not in priority order and are as follows:

- 1) Scheduling will respond to data, including a review of room ownership.
- 2) Develop a framework for defining programs in terms of how they meet GCCD's primary, secondary, and tertiary missions. This stratification provides the relative value of programs and services to GCCD’s mission.
- 3) Streamline the transition from Noncredit to credit.
- 4) The College will continue its work in competing for grants and pursue additional business partnerships that will provide additional funding.
- 5) The College will allocate on-going funding so that the replacement of equipment and technology can be scheduled and planned based on industry standards.
- 6) The College will implement its two-year projection into its budget process.

- 7) Investigate means of increased coordination and communication among the diverse student labs, including technology development and training with the goal of more consistent data collection, standard assessments (SLOAC), and possible economies of scale.
- 8) Continue to assess student learning outcomes at the course, program, and institutional levels and use assessment results for continuous improvement. Further develop the SLO database to improve the college's reporting and planning capabilities with regard to SLOs.
- 9) Faculty will continue to explore, evaluate and implement delivery modes and methods of instruction that meet the objectives of the curriculum and support student needs.
- 10) The College will strengthen governance relationships and promote trust by an ongoing self-evaluation process of the state of shared governance including an annual leadership survey.
- 11) The college will improve its use of communication tools (e.g. Facebook, Twitter, Instagram, Tumblr, etc.) to provide information to students, faculty, staff, and the community and to share college accomplishments more widely.
- 12) The college will clarify its hiring prioritization processes (IHAC, SSHAC, and CHAC) and how decisions are made about which positions will be funded.
- 13) The college will develop a "green" policy and implement it in order to work toward reducing the use of paper and improving the college's impact on the environment.

UNRESTRICTED GENERAL FUND REVENUES

The following chart provides a summary of proposed revenues for the Unrestricted General Fund.

Unrestricted General Fund Revenues (in \$Millions)				
	2012-13 Budget	2012-13 Projected	2013-14 Budget	Variance Budget/Budget
General Revenues:				
Base	69.297	69.297	69.867	0.570
COLA	0.000	0.000	1.097	1.097
Growth	0.000	0.570	0.000	0.000
Deficit	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Total	69.297	69.867	70.964	1.667
Federal Fund	0.001	0.001	0.001	0.000
Prior Year Adjustment	0.000	0.285	0.000	0.000
Lottery	1.950	1.950	1.950	0.000
Part-time Faculty Parity	0.349	0.349	0.349	0.000
Part-time Faculty Other	0.118	0.118	0.118	0.000
Other State	0.466	0.649	0.633	0.167
Interest	0.200	0.491	0.075	(0.125)
Other Local	0.061	0.065	0.060	0.000
Non-Resident	2.600	2.776	2.800	0.200
ASB Fee	0.185	0.172	0.190	0.005
Other Fees	<u>0.178</u>	<u>0.194</u>	<u>0.193</u>	<u>0.015</u>
Subtotal	6.108	7.050	6.369	0.262
Total Income	75.405	76.917	77.333	1.929
Incoming Transfers	0.403	0.403	0.050	(0.353)
Beginning Balance	4.895	4.895	4.911	0.016
Total Funds Available	80.703	82.215	82.294	1.592
Projected Expenditures	<u>80.703</u>	<u>77.493</u>	<u>82.294</u>	<u>(1.592)</u>
Ending Balance	0.000	4.722	0.000	0.000

An analysis of the changes to the 2013-14 revenues are as follows:

1. **General Revenues:** General revenues consist of base, COLA, growth and the system-wide deficit in property taxes and enrollment fees. The general revenues have been increased approximately \$1.67 million based on growth revenues in 2012-13 (\$570K) and a 1.57% COLA for 2013-14 (\$1.097M). No statewide deficit was included.
2. **Prior Year Adjustment:** An estimate is not made for Prior-Year Adjustment because we have no basis to make such an estimate. These funds are a result of a number of factors including how well other districts do in making their growth targets and the amount of property taxes and enrollment fee that are collected statewide. We will know this number in February 2014 when we receive our First Principal Apportionment report.
3. **Other State Revenue:** The other state revenue category consists of the Board of Governor's grant and mandated cost revenue. The revenue in this category was increased \$167K based on the actual revenue collected in 2012-13.
4. **Interest:** With the low interest rates at the County Treasurer, the interest revenue line item has been decreased \$125,000. Interest income and expense for our Tax Revenue Anticipation Notes (TRANS) are not budgeted.
5. **Non-Resident Tuition:** Non-Resident enrollment grew in 2012-13. In addition, the non-resident fee will increase \$6/unit in 2013-14. The budget for non-resident tuition was increased an additional \$200K.
6. **Interfund Transfers:** In 2012-13, the College received agreement from the unions to use the 2011 Blue Shield rebate (\$353K) for the budget deficit. Although the college will be receiving a \$716K Blue Shield rebate for 2012, no agreement has been reached with the Guild or CSEA on the use of these funds. Since the \$353K Blue Shield rebate was a one-time source of funds, the incoming interfund transfer line item was reduced \$353K for 2013-14.
7. **Beginning Balance:** The 2013-14 Tentative Budget is based on a beginning fund balance of \$4.91 million. This would be an increase of \$16K more than 2012-13. Current projections show the college ending the year with a \$4.72 million ending balance. This level is slightly over 6%.

UNRESTRICTED GENERAL FUND APPROPRIATIONS

The College began its appropriation adjustments by establishing a five per cent (5%) General Reserve in the amount of \$4,000,000. Then, \$359,000 of Exempt Cost augmentations were made. All other 2013-14 budget requests are in-process for funding. A reserve has not been set aside for these requests.

Exempt Costs: Exempt costs are defined as costs that benefit the college as a whole and which a manager has no control over the amount. Examples would include employee benefits, collective bargaining changes, utilities etc. The major exempt cost items that were augmented in this budget are as follows:

Augmentation	Amount
Step & Column	665,000
Health Insurance	(103,000)
Utilities	20,000
Postage	(20,000)
Insurance	55,000
Audit	10,000
State Unemployment Insurance	(483,000)
Retiree Benefits	(35,000)
5 Full Time Faculty hires	200,000
Reallocation Reserve	<u>50,000</u>
Total	359,000

- 1) **Step and Column Increases (\$665,000):** Step and column increases are the annual pay increases for all employees as they move to a higher step on their salary schedule or to a higher range.
- 2) **Health Insurance (-\$103,000):** The Blue Shield PPO plan received a 9.82% decrease in 2013. Six months of savings from this decrease will be realized in 2013-14 (July through December). This decrease plus a decrease in the number of participants results in a budget savings of \$103,000. This amount will accommodate an additional 10% premium increase in 2014.
- 3) **Utilities (\$20,000):** Water/sewer on the main campus and the Garfield utilities account were each augmented \$10,000 based on 2012-13 actual expenditures.
- 4) **Postage (-\$20,000):** The postage budget was decreased \$20,000 based on 2012-13 actual expenditures. Last year, the college received a rebate from the post office which it used this year to reduce expenses.
- 5) **Insurance (\$55,000):** The college's property and liability insurance accounts were augmented \$60,000 and student insurance reduced \$5,000. These adjustments were based on 2012-13 actual amounts.
- 6) **Audit (\$10,000):** The audit account was increased \$10,000 based on the audit contract.
- 7) **State Unemployment Insurance (-\$483,000):** With unemployment improving the State has decreased the state unemployment insurance rate from 1.1% to 0.05% resulting in savings of approximately \$483,000.
- 8) **Retiree Benefits (-\$35,000):** Retiree benefits have decreased as the number of retirees has decreased over the last 3 years.

- 9) **Five Full Time Faculty Hires (\$200,000):** The college had to hire five additional full time faculty to meet its full time obligation. This augmentation is the net of the cost of the full time position less \$45,000 of adjunct backfill.
- 10) **Reallocation Reserve (\$50,000):** The CSEA contract provides \$50,000 for salary reallocation adjustments each year with a maximum bank of \$150,000. This augmentation is required to comply with the CSEA contract.

Budget Committee Actions

The Rollover Budget started with a deficit of approximately \$1.9 million. This deficit was based on the assumption that the District would receive a 1.57% COLA in 2013-14, that at least \$570,000 in enrollment growth revenue would be earned in 2012-13, and that the ending fund balance as June 30, 2013 would be at the same level as June 30, 2012. (\$4.895 million). The Budget Committee in developing a recommendation to address this deficit identified the following changes:

1. **2008 Retirement Incentive (\$534,000):** In 2008, the District offered a retirement incentive to help balance the budget. This incentive was financed over a five year period. In 2012-13, the final payment was made on this retirement incentive. This freed up \$534,000 of operating budget funds.
2. **Restore One Month Work Year Reductions (-\$266,000):** For two years, the District did not offer a winter intersession due to the cutting of classes. With no students on campus during the month of January, it was determined that support staff could be reduced one month. Ninety four employees were scheduled to take a one month reduction in their assignment. In negotiation with the Guild, it was agreed to bring back the winter intersession among other concessions in exchange for the elimination of pro-rata pay. Since the college was now scheduled for a winter intersession, almost seventy of the employees schedule to be off had their assignments restored. This action resulted in an additional \$266,000 being added back into the budget.
3. **Budget Reallocation Sub-Committee (\$1,215,000):** The Budget Reallocation Sub-Committee reviewed all discretionary accounts that had a budget in excess of \$6,000 for potential budget savings. The sub-committee recommended \$1.215 million in budget cuts to the Budget Committee. The Budget Committee is currently hearing appeals from TOPS managers and will soon make a final decision on the actual amounts that can be cut from the budget.
4. **Matriculation backfill (\$401,000):** The May Revise includes \$50 million for matriculation services in 2013-14. These funds are to be used to start the implementation of the Student Success Task Force recommendations. When these budgets were cut in 2008-09, the District maintained all of its permanent staff and critical services. This resulted in District support of \$401,000 to maintain these programs. With the additional state funds, this support will no longer be needed.

With these adjustments, the Tentative Budget is balanced. The District must end the year with the same level of fund balance as 2011-12. Current projections indicate that the ending balance may decline slightly at June 30, 2013.

PENDING BUDGET ACTIONS

The Tentative Budget allows the District to begin expending funds on July 1st. The Final Budget will be brought to the Board at the September board meeting for adoption. Following are the major issues that must be addressed and may have a significant impact on our budget:

- 1) **Adoption of State Budget:** The State is still working toward approving its 2013-14 budget. What is finally adopted may require additional adjustments to College's budget. It is expected that the state budget adoption will occur before June 30, 2013.
- 2) **1% Deferred Pay Raise:** In 2008, the District had agreed with the employee unions on a 1% pay increase effective July 1, 2009. The District could postpone the 1% pay increase if the Board of Trustees would declare a fiscal emergency in a public board meeting. This declaration was made each year since 2009. If this declaration is not made by June 30, 2013, the pay raise will go into effect. Currently, the Tentative Budget will not support the approximate \$600,000 in additional cost.
- 3) **Enrollment Growth Target (\$?):** The May Revise has appropriated money to fund 1.63% of enrollment restoration. Currently, the District is just over its enrollment base. In order to earn this extra revenue, the District will have to schedule additional classes. It is proposed that these extra classes be funded through anticipated growth dollars. The number of extra classes will be determined once we know the level of enrollment in 2012-13 and the amount of growth funded in the adoption of the State Budget.
- 4) **Negotiation with Employee Groups:** The College is still negotiating with the Guild and CSEA on several items that could impact the budget; health care changes and use of the 2012 Blue Shield rebate (\$716,000).
- 5) **Funding of 2013-14 Budget Requests:** Other than the approval of full time faculty to meet the full time faculty obligation and the funding of "Exempt Cost" line items, the Budget Committee has not completed its prioritization and funding of the 2013-14 budget requests. A reserve has not been set aside for these requests.

BUDGET RISKS

The District's financial position is stronger than it has been in the last four years. However, there are still some risks that could impact the budget as follows:

1. **2012-13 Statewide Deficit:** Although there is a surplus in state tax receipts in 2012-13, there is a possibility that there may be a statewide deficit that all community colleges would have to take their proportionate share. Redevelopment funds and Education Protection Act funds (Proposition 30) may not materialize up to the expected levels. The P-1 Apportionment Report showed a 6.3% deficit factor primarily due to redevelopment funds. The Tentative Budget is based on community colleges receiving their entire apportionment funding in 2012-13.
2. **One Percent Deferred Pay Raise:** If the Board of Trustees does not declare a fiscal emergency, the one percent pay raise goes into effect. The current budget must receive approximately \$600,000 in additional revenue to support this cost. Both the Assembly and the Senate Budget Subcommittees are proposing additional revenue for community colleges in 2013-14. So it is likely that additional funding will be augmented for community college over the May Revise.

CONCLUSION

The Tentative Budget was developed based on the May Revise. There are still two major items within the budget that have to be addressed, the one percent deferred pay raise and the funding of 2013-14 budget requests. Since both the Assembly and the Senate Budget Subcommittees are recommending additional funding over the amounts appropriated in the May Revise, it is anticipated that there will be additional funding for community colleges when the state budget is adopted. In addition, the District is still looking at savings by making changes to our health plans and funding may be available through the negotiation of the 2012 Blue Shield rebate.

With unemployment going down and the housing market improving, it appears that the state is moving out of the recession. The economy has rebounded to the point where the state is in the best financial position in years. And with the passage of Proposition 30, the college is also in the best financial position in years. It is expected that improvements will continue through the period the tax increases included in Proposition 30 are in force. Hopefully in three years the economy is thriving and additional funding will continue for community colleges.