Budget & Planning Committee (BPC) Required Workshop - Budgeting

HOW MONEY WORKS AT A COMMUNITY COLLEGE

The primary source of funding for most community colleges come from the state. The state allocates a significant portion of educational funds to K-12 and community colleges based on Proposition 98. Proposition 98 sets a minimum annual funding level for K-12 and community colleges. Generally, Proposition 98 provides K-14 schools with a guaranteed funding source that grows each year with the economy and the number of students. Prop 98 can be suspended if

1) the suspension is for one fiscal year only;
2) the legislature passes an urgency statute;
3) the urgency statute is NOT the budget.

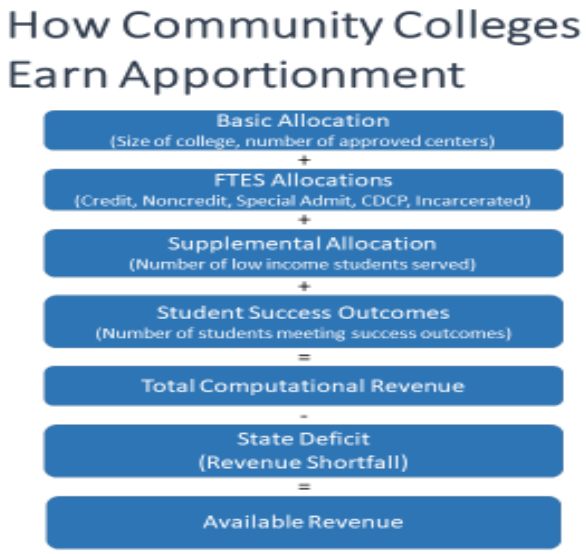
The size of the Prop 98 "split" between K-12 and CCs is not static. Based on assessment of needs (enrollment, other factors). The traditional community college percentage has been 10.93%.

HOW COMMUNITY COLLEGE BUDGETS ARE CALCULATED

The state calculates a district's primary apportionment amount based on the number of full-time equivalent students, size of the college, and other factors. In 2018/19 the state budget incorporated a new Student-Focused Funding Formula (SCFF) to allocate apportionment resources to community colleges. The new formula calculates apportionments generally using three allocations:

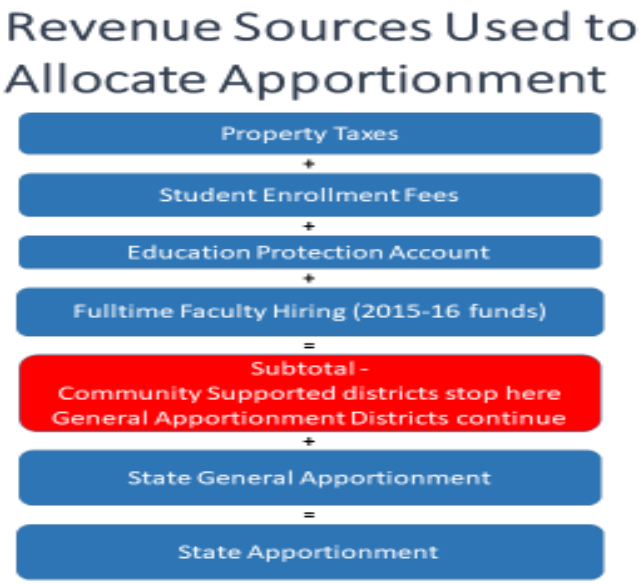
- Base Allocation—Current factors (primarily FTES and college/center allocations)
    - Currently comprises 70% of the allocation
- Supplemental Allocation—Counts of low-income students
    - Currently comprises 20% of allocation
- Student Success Allocation—Counts of outcomes related to the Vision for Success, with "premiums" for outcomes of low-income students
    - Currently comprises 10% of the allocation

The total amount of apportionment and other resources allocated are combined into what is considered a district's total computational revenue (TCR). If the state projects that revenue may come in under its original estimate, a deficit factor is applied, reducing the amount available to a district by a system wide percentage. This percentage is based on the size of the estimated shortfall.



How community colleges are paid

Community colleges primary apportionment is funded using four (4) main sources—student enrollment fees, property taxes, Education Protection Act funds, and State General Apportionment.
The Education Protection Act (EPA) funds that passed under Prop 39 and revised with Prop 55 (Nov 2016). The EPA funds are collected from income taxes (prop 55 extends this to 2030). MiraCosta receives approximately $1 million of EPA funds each year. If the amount of the calculated state apportionment is less than the district's local property tax revenues and student enrollment fees, then the district does not receive any state general apportionment amount, but receives the property tax revenue directly from the county. There are 72 districts with 114 colleges; 7 districts are Community Support Districts (formerly called Basic Aid Districts). MiraCosta College has been a Community Supported District for well over 20 years.



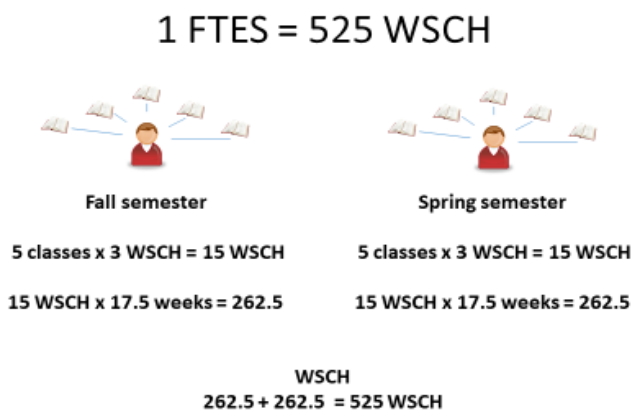
How is a fulltime Equivalent Student (FTES) Calculated?

Full-Time Equivalent Student (FTES) means a student or combination of several students who carries or carry among them, within a single academic year, 525 weekly student contact hours of instruction, in any program, as specified by rule by the State Board of Education.

Weekly Student Contact Hours = WSCH
(at Census date)
Each hour a lecture class is scheduled to meet
equals 1 WSCH

a standard 3-unit lecture class has 3 WSCH

The formula is built on the assumption that student taking a full load of classes for two semesters (fall & spring) would accumulate 525 weekly student contact hours as shown in the graphic below.



The total weekly contact hours of the college credit and noncredit programs are then added and divided by 525 to come up with the college FTES.

How does the MiraCosta Community College District (MCCD) budget and process work?

The district budget is a plan of estimated revenues and expenditures for a given period of time called a fiscal year. The budget represents the operational plans of the district in terms of economic decisions to meet its needs, commitments and planning goals. The budgetary accounts have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's Budget and Accounting Manual.

The annual budget supports the district's mission and educational master plan. Assumptions upon which the budget is based are presented to the Budget and Planning Committee and the Governing Board for review. All California community colleges prepare annual budgets for each fiscal year, which begins July 1 of one year and ends June 30 of the next year. The annual budget is incorporated into the Five-Year Financial Plan. The timeline for the annual budget is:

February:	Preliminary budget assumptions presented to the Board of Trustees
April–May:	Budget development by budget managers
May:	BPC reviews draft of Tentative Budget
June:	Tentative Budget workshop for board and approval
July 1:	Tentative Budget in effect, allows districts to start spending funds
July 1:	State budget enacted
July 30–September	State budget allocations to community colleges
August	Final Budget review by BPC
August - September	Budget Workshop for board
September 15:	Final budget adopted prior to Sept 15 (law)

Revenues, Expenses and Fund Types Overview

Revenues (income) are used to pay for employee's wages, benefits (CalSTRS/CalPERS pension plans, healthcare benefits, workers comp, unemployment insurance), and payroll taxes (Medicare and social security taxes). In addition to salaries and benefits, the college pays for all other *expenses* to run the college that includes supplies, operational expenses, and equipment. Revenue and expenditures are

managed and tracked by different funds based on the source of the fund and the use of the fund, as specified by the Budget and Accounting Manual (BAM).

The community college fund structure presented below is based largely on concepts and principles contained in Governmental Accounting and Financial Reporting, and is aligned with the California Community Colleges Budget and Accounting Manual. This structure allows districts to establish any number of accounts for internal reporting, but requires that all accounts be consolidated for external financial reporting purposes. Fund accounting, therefore, is used as a control device to separate financial resources and ensure that they are used for their intended purposes with the fund as the basic recording entity for reporting specified assets, liabilities and related transactional movements of its resources. A listing of funds used at MiraCosta College is listed below.

FUND DESCRIPTIONS

GOVERNMENTAL	PROPRIETARY	FIDUCIARY
Governmental funds are used to track information on resources associated with the district's educational objectives.	Proprietary funds are for tracking district activities similar to those used in private-sector accounting due to their income-producing character.	Fiduciary funds account for assets held on behalf of another party for which the district has some discretionary authority.
GENERAL FUND ▪ Restricted ▪ Unrestricted **DEBT SERVICE** ▪ Bond Interest & Redemption **CAPITAL PROJECTS** ▪ Capital Outlay Projects ▪ General Obligation Bond	**ENTERPRISE FUNDS** ▪ Bookstore ▪ Cafeteria **INTERNAL SERVICE** ▪ Self-Insurance	**TRUST FUNDS** ▪ Associated Student Government ▪ Student Center Fee ▪ Student Financial Aid ▪ Other Trust Fund

FUND		PURPOSE
11	General Fund—Unrestricted	Used to account for resources available for the general district operations and support for educational programs.
12	General Fund—Restricted	Restricted monies are from an external source that requires the monies be used for a specific purpose or purposes.
29	Debt Service	Used only for the accumulation of resources for, and the payment of, other types of general long-term debt principal and interest.
41	Capital Outlay Projects	Used to account for the accumulation and expenditure of monies for the acquisition or construction of significant capital outlay items and scheduled maintenance and special repairs projects.
43	General Obligation Bond	Designated to account for the proceeds from the sale of the bonds under Proposition 39, and the related expenditures related to the acquisition and construction of the projects voted and approved by the local property owners.
51	Bookstore	Receives the proceeds derived from the bookstore operations. All necessary expenses for the bookstore may be paid from generated revenue.
52	Cafeteria	Receives all monies from the sale of food or any other services performed by the cafeteria. Costs incurred from the operation and maintenance of the cafeteria are paid from this fund.
61	Self-Insurance	Used to account for income and expenditures of authorized self-insurance programs.
71	Associated Student Government	These monies are held in trust by the district for its organized student body associations, excluding clubs.
73	Student Center Fee	Accounts for monies collected by the district for the purpose of establishing an annual building and operating fee to finance, construct, enlarge, remodel, refurbish, and operate a student center.
74	Student Financial Aid	Accounts for the deposit and direct payment of government-funded student financial aid.
79	Other Trust Fund	Other Trust Funds are used to account for all other moneys held in a trustee capacity by the college or district. Such funds may be established and maintained in the appropriate country treasury or the governing board may establish a bank account for each trust.

The General Funds (Funds 11 & 12) are the primary operating funds of the district. They are used to account for those transactions that, in general, cover the full scope of operations of the district. The General Fund is divided into two sub groups: General Fund Unrestricted, and General Fund Restricted. The General Fund Unrestricted will be the main focus of BPC.

General Fund -Restricted (Fund 12):

The General Fund Restricted is used to account for resources available for the operation and support of the district educational programs that are specifically restricted by laws, regulations, donors, or other outside agencies as to their expenditure. These are primarily from federal and state funded programs that have restrictions on the use of the funds, for example, grants and state categorical funds. The list below is the state general apportionment and categorical funds that are allocated to the community colleges; the program can change depending on new state programs or the sunset of programs and not all categorical funding are allocated to all districts.

MiraCosta receives approximately $13.36 million from state categorical programs and these are the largest ones: EOPS (Extended Opportunity and Programs Services), DSPS (Disabled Students Program and Services), Student Equity and Achievement (formerly known as Student Success and Student Equity), Strong Workforce, Adult Education Block Grant (AEBG), and Physical Plant and Instructional Equipment (PPIS, the annual amount will be $121,525).

MIRA COSTA COMMUNITY COLEGE DISTRICT	**2019-20**
SAN DIEGO COUNTY	
Program	**20019-20 Advanced 07/15/19**
STATE GENERAL APPORTIONMENT	667,067
SPECIAL TRUSTEE RESTRICTED EXP	-
SPECIAL TRUSTEE AB318 RESTRICTED EXP	-
CALIFORNIA COLLEGE PROMISE	1,255,217
FULL TIME FACULTY HIRING	490,115
APPRENTICESHIP ALLOWANCE	-
COLLEGE PROMISE GRANTS (BOG FEE WAIVERS ADMIN)	139,750
S.F.A.A.	433,907
STUDENT SUCCESS COMPLETION	1,077,681
FINANCIAL AID TECHNOLOGY	53,333
D.S.P.S.	1,001,467
ACCESS TO PRINT AND ELECTRONIC INFO	11042
DEAF AND HARD OF HEARING	-
STATE HOSPITAL	-
CALWORKs	345,987
FOSTER CARE EDUCATION	-
NEXTUP	-
MENTAL HEALTH SUPPORT	-
HUNGER FREE CAMPUS	-
GUIDED PATHWAYS	-
STUDENT EQUITY AND ACHIEVEMENT	4,118,209
VETERAN RESOURCE CENTER	17,699
EQUAL EMPLOYMENT OPPORTUNITY	45,000
CLASSIFIED PROFESSIONAL DEVELOPMENT	-
PART-TIME FACULTY COMPENSATION	262,472
PART-TIME FACULTY HEALTH BENEFITS	-
PART-TIME FACULTY OFFICE HOURS	-
STRONG WORKFORCE PROGRAM	965,460
ADULT EDUCATION BLOCK GRANT	1,219,848
K-12 STRONG WORKFORCE	-
NURSING EDUCATION	243,678
CERTIFIED NURSE ASSISTANT PROGRAM	-
ECON DEV FOR DISTRESSED AREAS	-
E.O.P.S.	892,212
C.A.R.E.	117,190
CHILDCARE TAX BAILOUT	-
PHYSICAL PLANT & INST'L SUPPORT	-
LEGAL SERVICES TO UNDOCUMENTED STUDENTS	-
COLLEGE SPECIFIC ALLOCATIONS	
PUENTE ADJ. 2016-17	
PRIOR YEAR GENERAL APPORTIONMENT ADJUSTMENT	-
PRIOR YEAR CATEGORICAL ADJUSTMENT	-
Apportionment total	**13,357,334**

HOW DO RESTRICTED FUNDS RELATE TO CATEGORICAL FUNDING AND WHAT DOES CATEGORICAL MONEY MEAN?

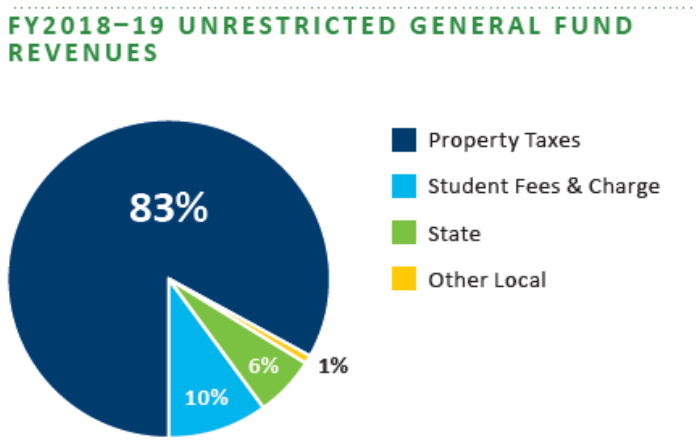
As stated earlier, there are restricted funds that require money to be spent on specific items. Those funds are often broken into categories and are referred to as *categorical funding*, or sometimes just *categoricals*. It is always important to remember that these funds cannot be diverted to new areas;

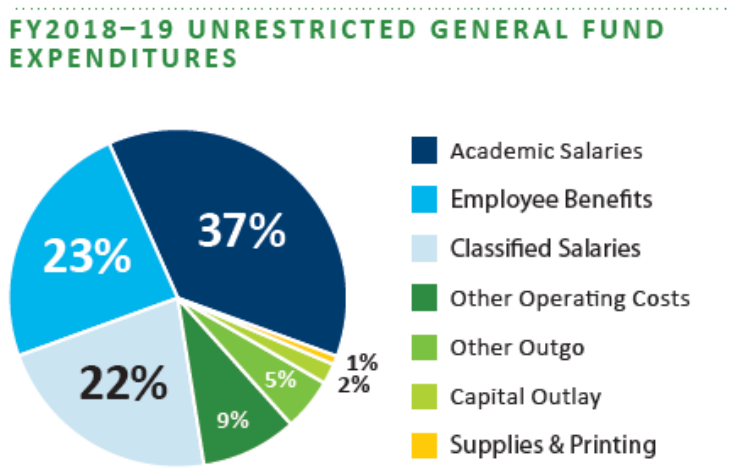
sometimes there is additional money from the state for these categoricals with required spending within a fiscal year. This would allow certain plans to be funded that may otherwise not be. *It is critical to note that some of these funds are one-time or come to an end. Hiring a person with these funds would make that person's position contingent on this money. Should the money go away, so may that position.*

General Fund -Unrestricted (Fund 11):

The General Fund Unrestricted is used to account for resources available for the general purposes of district operations and support of its educational programs. General Fund Unrestricted revenue includes property tax, Education Protection Act revenues, the maintenance of the 2015-16 full-time faculty hiring funds, and student enrollment fees. The largest revenues are from local property taxes. Together these form the combined General Fund Unrestricted revenues in Fund 11.

The largest portion of the general fund unrestricted revenues is from property taxes, 83%.

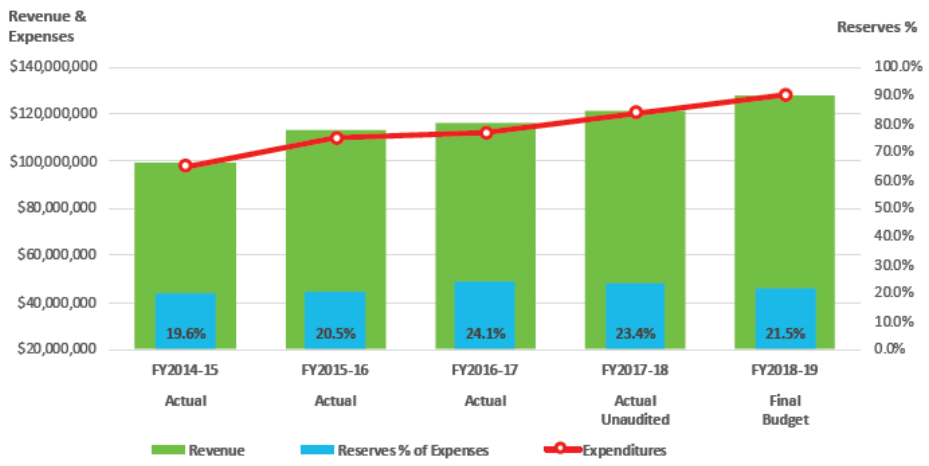




The largest portion of expenses are from salaries and benefits, which typically is around 80% to 85% for most community colleges.

Revenue has steadily increased to $131 million ($111 million from local property taxes), and expenses have also increased due to higher costs in wages and benefits and new faculty and staff personnel.

GENERAL FUND—UNRESTRICTED: REVENUE, EXPENDITURES & RESERVES



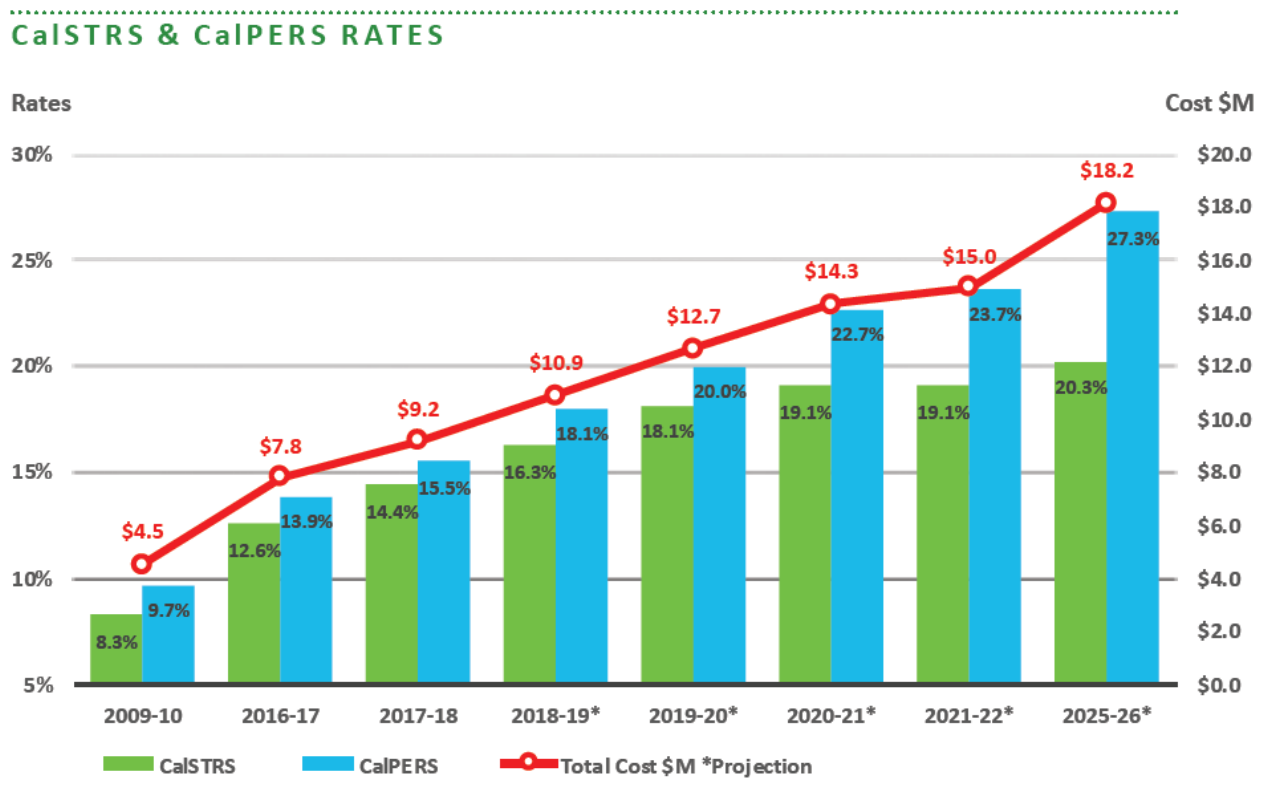
Much of the budget relates to fixed expenses, some examples of fixed expenses are salaries, benefits, utilities, and other repair/maintenance ongoing costs. Once the revenues are added up, and the expenses are subtracted, there may or may not be funds left over. When revenues are greater than expenses, the left over amount increases the fund balance and carries over to the next year.* If the expenses are greater than revenues, the fund balance is reduced; this is called *deficit spending*, when expenses are higher than revenues in a fiscal year.

> ** Some restricted funds have requirements that the money must be spent by the end of the fiscal year. If it is not spent, the money could revert back to the source (e.g. back to the state). This may occasionally result in higher volume of purchase activities near the end of the fiscal year.*

MiraCosta works hard to be sure there is a balanced budget and that there are healthy reserves for future situations that may arise. The Board of Trustees were sent a recommendation by BPC to keep reserves at 15% or higher. While there are obvious reasons for healthy reserves, it is important to note that having reserves at 15% or higher is one of the factors used by credit rating agencies (such as Moody's and Standard &Poor's) to rate a district's overall financial health as a borrower. MiraCosta College received the highest rating by both Moody's (Aaa) and Standard &Poor's (AAA) for the first issue of the general obligation bond. By receiving the highest rating, the bond yield (interest rate) to the investor is lower and thus the cost to the taxpayer is lower too. MiraCosta will need a new credit rating for the next bond issue in about three years.

Over the years, there have been a few times when deficit spending has occurred. After the great recession, property taxes decreased after years of large increases. This led to predictions of huge deficit spending to cover the expenses. To address the projected shortfall, the college put in place a hiring freeze/frost, suspended certain board policies, and constituency groups agreed to decrease their benefit amounts and leave some positions unfilled after staff retirements.

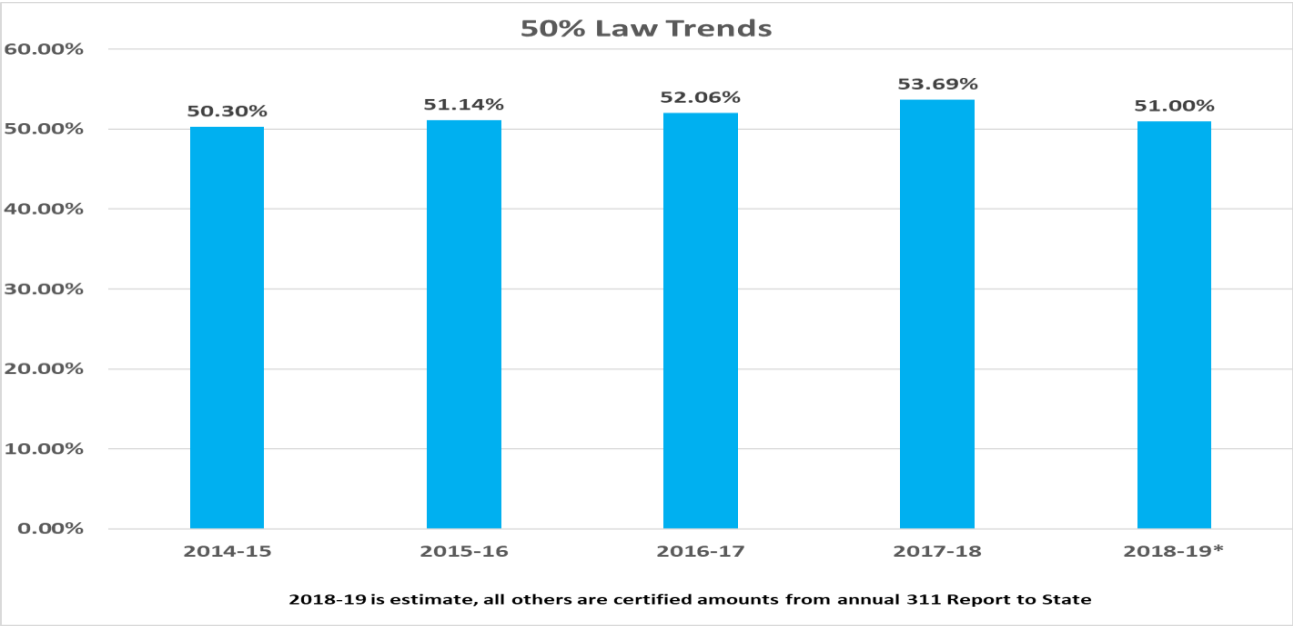
MiraCosta needs to be mindful of escalating costs, in particular, the district's contribution for employees' pension plans CalSTRS and CalPERS that will rise from ~15% (FY2017-18) to over 24% in the next few years. Through careful management, MCCD can continue to achieve a healthy reserve balance despite escalating costs.



WHAT IS THE 50% LAW AND WHY DOES IT MATTER WITH BUDGETING?

California has a law (ECS 84362) that requires 50% of the current expense of education to be spent on salaries and benefits of classroom instructors. Direct instructional expenses are counted as qualified expenses and non-instructional expenses are counted as non-qualified. Non-instructional expenses are non-instructional salaries and benefits, supplies, and operational expenses. Equipment expenses are excluded from the calculation.

Similar to most colleges, MCCD's instructional expenses are just above the 50% law. The trend has been ~51% for several years. If MCCD spent enough on non-qualifying expenses, the overall ratio would fall below 50% and we would violate the 50% law. To avoid any violation, it is important to understand what expenses would qualify as well as where the district currently is with respect to the ratio.



WHAT DOES IT MEAN WHEN AN EXPENSE IS ONGOING OR ONE-TIME?

Program Review (PR) plans are submitted to enhance, expand, and innovate programs that seek funding – creating additional expenses. When determining whether the school can afford to fund a plan, one aspect that often comes up is the ongoing vs. one-time expenses. *Ongoing expenses* are those that will continue on past one year, and often for the foreseeable future. *One-time expenses* will not continue past the initial purchase.

When the total cost of ownership (TCO) is considered, many items have ongoing expenses even if they initially seem like one-time expenses. Example: a program needs a computer – this seems like a one-time expense. However, using that computer will increase utility bills, will require replacement in the future, and may require additional bandwidth or facilities work to have appropriate connectivity.

WHAT DOES BPC DO WITH RESPECT TO THE BUDGET AND FUNDING PLANS?

Program Review (PR) is the place to seek new funding for classified staff and other operational expenses (supplies, services, and equipment). Refer to the Resource Allocation Process & Flowchart. Departments and programs develop and write PR action plans. If the action plans require resources, a resource request tied to the program review action plan is completed. The resource request will include estimated costs for ongoing or one-time funding for the following fiscal year. Those plans are sent to the respective deans, and then each division vice president and Office of the President ranks their priority. BPC receives all ranked resource requests and divides them by RCP (Resource Category Plan) teams who ranked them using a rubric. The RCP results are consolidated and reviewed by subcommittees of the Budget Planning Committee (BPC) and reported back to the entire BPC membership.

BPC sends the final recommendation to the superintendent/president, who makes the final approval and communicates to all employees of the funded programs. The decision to fund program review plans are based on affordability, critical nature of the program, 50% law compliance, and future reserve considerations set at greater than 15%.

RECENT HISTORY OF RESOURCE ALLOCATION AT MCCD

With the boom in revenues in the 2000's, money was flowing through MCCD and programs/departments became accustomed to having most of their PR plans fully funded, whether one-time or ongoing. This continued until 2009-2010, when the decreasing property taxes from the housing bubble burst, hitting the budget hard. BPC was forced to pull back on the reigns. There was at least one year when the recommendation from BPC was for no funding of any PR plans*. It is important to note that BPC has not considered looking at the base budgets given to different programs and reallocating those funds to other programs…at least not recently.*

- For fiscal year 2012-13, there was some funding of plans, but it was very limited.
- For fiscal year 2013-14, about $500K was proposed as the amount that could be funded. However, this fixed one-time amount was spent on both one-time and ongoing expenses; this created some problems as the ongoing expenses needed to be institutionalized, and over time, would result in expenditures of far more than the $500K.
- For fiscal year 2014-15, about $600K was proposed, but there was another move to convert long-term temporary employees into permanent positions – this was called the *temp-to-perm conversion*. It was estimated that this would cost about $1.2M spread over a several years, so BPC recommended to ***not*** fund any other ongoing expenses and instead fund only one-time expenses. This recommendation was mostly followed by the superintendent/president, but an additional $250K of ongoing expenses was funded outside of the BPC recommendation.
- For fiscal year 2015-16, there was more discussion about how the budget affected planning, as well as the future impact of decisions made for funding PR plans. Based on the discussion, BPC recommended no expenditure of funds on PR plans. Since the budget indicated that any funding recommendation would result in deficit spending, it was considered the best fiscal decision going forward.
- For fiscal year 2016-17, roughly $450K in program plans were funded from the general fund, including $400K for ongoing staffing and $47K for equipment and supplies. An additional $11M in staffing, technology, equipment and facilities was approved to be paid for through a variety of funds including bonds, grants and division/department funds.
- For fiscal year 2017-18, $710K in program plans were funded from the General Fund including $480K in staffing, and $230K in ADA upgrades, supplies, and equipment. An additional $4M was approved from the general fund for a new ERP system, to be paid for over multiple years. Bond and other revenue sources in the amount of $643K were approved to fund various remodels, as well as supplies and equipment.
- For fiscal year 2018-19, $1.6M in program plans were funded through the general fund, primarily for new ongoing staffing. Another $1.2M in plans were funded using department funds, grants, bonds, state funding sources for various one-time equipment, supplies, facilities and services, as well as one ongoing staff position.
- For fiscal year 2019-20, $600K in program review plans were funded, which included $458K in ongoing staffing and $140K in one-time equipment and technology.

FISCAL MANAGEMENT FOR THE FUTURE

The district has significant cost challenges ahead, namely the CalSTRS and CalPERS and the replacement of the 15+ year old ERP (Enterprise Resource Planning) PeopleSoft system. Moving forward, BPC recommendations could include:

- Caution with respect to the 50% law
- Focus on student success and institutional goals
- Caution with regards to one-time vs. ongoing expenses
- Constant reflection on the fiscal impact of decisions on the future stability of MCCD
- Current plans are not funded, and the decision to allocate only new dollars vs reallocating currently budgeted dollars will significantly limit any funding recommendations
- Based on current obligations (liabilities), it is likely that not funding any new PR plans with ongoing expenses could still result in deficit spending; if this happens enough, there may be a RIF
- Since construction costs (Fund 41) come from transfers into capital outlay and originate from unrestricted general funds, any new buildings or expensive remodels will put a hold on other ongoing expenses and could have an impact eventually on salary and benefit costs that the district can afford

GENERAL OVERVIEW OF ACCOUNT NUMBERS, FUNDING SOURCE NUMBERS, AND BUDGET STRINGS

With many faculty working to develop budgets, becoming department chairs, and working on committees that utilize budgets, it is important to understand basic account numbers and funding source numbers.

Major Account Types (by number)		
Account	Brief Description	Includes
100000	Academic Salaries	Classroom and non-classroom faculty, academic administrators *Most are qualifying, some are non-qualifying
200000	Classified Salaries	Classified staff and classified administrators, also student workers *Most are non-qualifying, some are qualifying
300000	Benefits	STRS/PERS/ARS; FICA; Medicare; Health/Medical; Retirement Benefits – often called GASB 45 or OPEB (other post-employment benefits); State Unemployment Insurance, Workers Comp, ARS *Portions of this tied to qualifying salaries are also qualifying
400000	Supplies & Printing	Printing costs, software, periodicals and subscriptions
500000	Other Operational Costs	Travel and conferences, consultants/guest speakers, mileage reimbursements, insurance, utilities, legal funds, advertising
600000	Capital Outlay	Land and building improvements, contractors, library books and materials, IT equipment,
700000	Other Outgoing	Debt Reduction, scholarships and contingencies.

800000	Revenue and other financing services	Federal, State, Local Revenues
900000	Assets, Liabilities, Suspense/Clearing	Assets: Cash, Receivables, Capital Assets. Liabilities: Accounts Payables, Long Term Debt (Bond Payments)

Funding Source	Source From	Use
0001 - 0999	Federal	Restricted
1000 - 1999	State	Restricted
2000 - 2999	Local	Restricted
6000 - 6999	Local	Unrestricted
9211	Fixed Obligations	Unrestricted
9511	One-year Allocations	Unrestricted
9811	Dept Operating Funds	Unrestricted
9812	One-year Funding by Division	Unrestricted

Each fund has a different number to make reference much quicker, and each fund is made up of many different accounts, programs, and budgets. A typical account string looks like this:

$$\underbrace{11}_{\text{Fund Number}} - \underbrace{141900}_{\text{Account Number}} - \underbrace{250}_{\text{Department Number}} - \underbrace{00000}_{\text{Project Number}} - \underbrace{6193}_{\text{Program Number}} - \underbrace{0000}_{\text{Funding Source}}$$

There are state reporting requirements by Funds, Account Numbers, and Programs (Activities). In order to provide department control and accountability, Department Number and Project Numbers are used. Lastly, Funding Source is used to distinguish revenue and expenses by restricted, unrestricted, and federal, state, and local funds. BPC focuses on the bigger picture which includes adding all the amounts in specific accounts and funds. In rare situations, it may be necessary to look at amounts for individual accounts.