

BOARD REPORT NO. 20-X-XXX

TO: Members of the Board of Trustees

FROM: Michael Claire, Chancellor

PREPARED BY: Bernata Slater, Chief Financial Officer, 358-6795

ADOPTION OF THE 2020-21 TENTATIVE BUDGET

In accordance with State law, the Tentative Budget must be adopted by the Board of Trustees on or before July 1, 2020. The budget will be revised during the summer to reflect the needed changes resulting from passage of the State Budget and from 2019-20 year-end close activities. The Tentative Budget also will be revised to reflect other revisions that occur up to the time that the 2020-21 Final Adopted Budget is presented to the Board of Trustees for approval on September 9, 2020.

The Tentative Budget is derived from revenue projections based upon the latest information available from the State Chancellor's Office and estimates for local revenue. Expenditure projections are based upon data currently available relating to District obligations, set-asides, and site allocations. The Tentative Budget is a compilation of information presented to the Board subsequent to adoption of the 2020-21 Integrated District Budget Planning Calendar on January 22, 2020.

RECOMMENDATION

To meet the California Code of Regulations Section §58305 requirements for Tentative Budget approval, to proceed with the orderly close of the 2019-20 accounting records, and to begin 2020-21 disbursements in July 2020, it is recommended that the Board of Trustees adopt the following Tentative Budget:

General Fund, Unrestricted		\$	207,481,650
General Fund, Restricted			46,989,288
Self-Insurance Fund			2,627,522
Debt Service Fund			67,601,288
Capital Projects Fund			89,127,246
Bookstore Fund			6,381,728
Cafeteria Fund			214,105
San Mateo Athletic Club/Aquatic Center (SMAC)			5,176,843
Community, Continuing, Corporate Education			1,417,515
Child Development Fund			1,316,442
Trust Funds (Financial Aid)			18,100,000
Reserve Fund for Post-Retirement Benefits			7,136,355
TOTAL - ALL FUNDS		\$	453,569,982

The Tentative Budget Report provides a summary of the 2020-21 State budget and the District's budget planning information. It focuses primarily on the Unrestricted General Fund; however, preliminary information is also included about other District funds.

May Revision

On May 14th, Governor Newsom released an update to his 2020-21 budget proposal from January 2020. The public health emergency associated with COVID-19 has presented an unprecedented impact to resources and has caused a "seismic shift" to the state's economic condition. Accordingly, the Governor's update in May projects a \$54 billion shortfall as opposed to the \$5.6 billion surplus projected in January 2020. The Legislative Analyst's Office (LAO), in its May 8 Spring Fiscal Outlook¹, estimated a substantially lower budget deficit ranging from \$18 billion to \$31 billion and that budget deficits will likely persist until at least 2023-24 depending upon the speed of economic recovery. The gap in projections is partially attributable to Executive Order N-25-20, which temporarily extended, in part, the deadline for income tax filing deadlines from April 15th to July 15th, which is beyond the constitutional deadline of June 30th for the state to adopt its budget (i.e., income tax revenues normally known by May will not be known until August).

Community College Proposals²

Given the afore-mentioned, Governor Newsom has proposed to reduce on-going funding to community colleges by \$1.1 billion as compared to January 2020 by rescinding all of his proposals for new on-going spending (except for \$10 million for immigrant legal services) and is proposing the following:

- Reducing funding to the Student Center Funding Formula (SCFF) by 8% over 2019-20 levels.
 - Reduces categorical funding to community-supported districts in an amount equal to the 8% reduction. It is estimated that this will impact the District by approximately \$8.4 million.
- Reducing the Strong Workforce Categorical Program by 55%. It is estimated that this will impact the District by approximately \$2 million.
- Reducing other categorical programs by 15%:
 - Student Equity and Achievement (SEA) Program. It is estimated that this will impact the District by approximately \$1 million.
 - Part-Time Faculty Office Hours and Part-Time Faculty Compensation. It is estimated that this will impact the District by approximately \$100k.
- Reducing the allocation to Calbright College (the statewide online college) by 15%.
- Reducing the Adult Education Program by 10%.
- Implementing cash deferrals.
- Extending the SCFF's hold harmless provision by two years through 2023-24.
- Providing no COLA or enrollment growth funding (for comparison, he had proposed 2.29% COLA and .5% enrollment growth funding).
- Redirecting funds previously designated for a long-term buy down of pension liabilities towards employer pension contributions in 2020-21 and 2021-22, which will reduce the contribution rates by approximately 2% from previous forecasts. This will positively impact the District's Total Compensation Formula.

¹ <https://lao.ca.gov/reports/2020/4228/spring-outlook-2020.pdf>

² <https://www.cccco.edu/-/media/CCCO-Website/College-Finance-and-Facilities/Budget-News/2020-21-may-revision-joint-analysis-05-15-20-a11y.pdf?la=en&hash=2E914A452AFF31CDE9AF8B89974436C5486887C7>

- Funding to support Capital Outlay Projects funded from Proposition 51. The District has three projects included in this proposal:
 - Skyline College – Workforce and Economic Development Center
 - College of San Mateo – Water Supply Tank Replacement
 - Cañada College – Building 12 – Multiple Program Instructional Center

Amid these reductions, the Governor articulates expectations for community colleges to maintain access to higher education especially for underrepresented students and expects districts to absorb budget reductions without reducing enrollment, support for students’ basic needs, or services to assist underrepresented students by working to expand and improve the quality of online programs, collaborating on a single statewide learning management system, adopting policies that better enable underrepresented students to access higher education.

The State Legislature has rejected most of the Governor’s reductions proposed in his May Revision, has proposed the elimination of the Calbright College, and has anticipated the receipt of federal stimulus money yet to be approved by Congress and signed by the President, to buttress against state revenue reductions. If the federal stimulus money does not materialize, then significant cash deferrals would be triggered. On June 10, 2020, Senate President pro Tempore Toni Atkins (D-San Diego) and Assembly Speaker Anthony Rendon (D-Lakewood) announced in a joint statement³ that the Legislature will meet the constitutional deadline to approve the 2020-21 State budget and that negotiations with the Governor continue to be productive; however, as of this writing they have not been able to come to an agreement.

Given the uncertainty of the economic situation, state leaders have signaled that they expect amendments to the 2020-21 State budget after adoption. This will likely be in the fall (“fall revise”) once additional information about the state’s fiscal condition becomes available in August or September. An amended budget would be better informed to reflect the impact of the recession brought upon by the pandemic.

District Planning

Amidst the economic uncertainty, the District continues to be community-supported (i.e., basic aid) and continues to be almost entirely dependent upon local revenue sources (e.g., property taxes). This means that the standard non-categorical allocations for public education – such as general apportionment, growth allocations, and State-funded COLA – do not apply. As of the 2019-20 First Principal Apportionment, the District was \$73 million dollars into basic-aid status.

On May 6, 2020, the Governor signed Executive Order N-61-20 canceling penalties, interest, and other costs for the failure to pay property taxes on time. San Mateo County has notified the District that given the uncertainty surrounding property tax collections for 2020-21, the County does not plan to change its distribution schedule unless there are insufficient funds to cover the distribution amounts. Given that the County has adopted the Teeter Plan, the County has committed to distribute 100% of property taxes by June 30, 2021. This, coupled with cash deferrals proposed by the State, will impact the District’s cash flow. Staff is monitoring these developments closely and will apprise the Board of Trustees if short-term borrowing in the form of a TRANs (Tax and Revenue Anticipation Note) will be required.

Tentative Budget revenue estimates are that on-going increases in property taxes based upon assessed valuation will decline by approximately .25% (from 7.12% growth in 2019-20 to 6.86% in 2020-21) with each 1% equating to approximately \$1.7 million. This is a result of assessed valuation, which drives property taxes, being what is known as an “economic lagging indicator.” Any negative impacts to assessed

³<https://sd39.senate.ca.gov/news/20200610-senate-assembly-hold-budget-vote-june-15-negotiations-continue-governor-newsom>

valuation as a result of the sudden and dramatic recession will be realized beginning in 2021-22. Accordingly the District has planned for three scenarios. The tentative budget is currently based upon Scenario 1; however, simulations have been discussed across the organization with regards to all scenarios for planning purposes. The scenarios are noted below:

Property Taxes	2020-21	2021-22	2022-23
Scenario 1 (Current)	6.86%	4.5%	4%
Scenario 2	5.86%	1.5%	.5%
Scenario 3	4.86%	-1.5%	-3.5%

In keeping with the Board of Trustees’ priorities, the 2020-21 Unrestricted General Fund Tentative Budget provides \$1.5 million in continued support of the Promise Scholars Program, which provides financial, academic, and personalized student services for first-time, full-time students whose educational goal is to earn a certificate or associate degree; provides \$800k in continued support to the Equity Institute, and \$1 million continued support for the food insecurity initiative. Additionally, \$1.8 million has been budgeted for COVID-19 related expenses given the assured cost increases once the District returns to “normal” operations due to new operational restrictions (e.g., social distancing, increased sanitation, etc.).

Lastly, it is important to note that given the vastly different proposed budget balancing strategies between the Governor (e.g., reductions) and the Legislature (e.g., cash deferrals), the 2020-21 Tentative Budget does not assume reductions to categorical programs. The District will revise the budget via the 2020-21 Final Adopted Budget and/or the 2020-21 Mid-Year Budget Report, as appropriate, once more definitive information becomes available. It is also important to note that the state-mandated stay-at-home order has impacted the tentative budgets for auxiliary services (Fund 5) and the child development centers (Fund 6).

Proposition 55

The District continues to receive funds from the State’s Education Protection Account (EPA) at a rate of \$100 per FTES. Proposition 55 succeeded Proposition 30, which expired in December 2018. Proposition 55 sunsets in December 2030. Based upon \$100 per FTES, the District is anticipating the receipt of \$1,437,300 in 2020-21.

2020-21 Revenue / Expense Projections (Fund 1)

The unrestricted general fund revenue projections are based primarily upon local revenues. Revenue and expenditure projections are predicated on a number of assumptions including, but not limited to, the following:

- Community-supported (i.e., basic-aid) status continues in 2020-21.
- 2020-21 Resident FTES based upon a 1.35% decline over 2019-20.
- 2020-21 International FTES based upon a 34.95% decline over 2019-20.
- 3.14% inflation on certain expenses, which will be revised to .62% based upon the latest data
- Utility, insurance, and district-wide technology costs based upon best estimates.
- Set-aside of \$9.27 million for the total compensation formula.
- No tuition fee increase for resident students (\$46 per unit).
- An increase to the non-resident tuition fee from \$265 per semester unit to \$288 per semester unit per Board action dated February 26, 2020.
- Property Tax increase of 6.86% over the prior year, which will be updated with the adoption of the 2020-21 Final Adopted Budget in September once the final assessed valuation data is provided by the County in July.

- Lottery revenues at \$153 per FTES (per School Services of CA).
- Mandated Cost Reimbursement revenues at \$30.16 per FTES (per School Services of CA).

The major functional uses of the Fund 1 Unrestricted General Fund Budget by major account category are noted in the following table:

Account Category	2019-20 Final Adopted Budget*	2020-21 Tentative Budget**	\$ Change
Certificated Salaries	\$ 68,698,033	\$ 72,869,889	\$ 4,171,856
Classified Salaries	46,949,573	50,153,586	\$ 3,204,013
Employee Benefits	48,401,785	44,082,586	\$ (4,319,199)
Supplies / Materials	4,922,726	4,586,817	\$ (335,909)
Operating Expenses	35,342,066	25,975,439	\$ (9,366,627)
Capital Outlay	2,260,916	428,964	\$ (1,831,952)
Transfers/Other	7,894,085	9,384,369	\$ 1,490,284
Total	\$ 214,469,184	\$ 207,481,650	\$ (6,987,534)
* Includes \$12,928,366 in prior year (2018-19) carryover			
** Does not include beginning balance / carryover as final 2019-20 numbers are not known until after the 2019-20 books are closed.			

The 2020-21 Tentative Unrestricted General Budget, as illustrated in the following table, is balanced whereby projected expenditures are covered by sufficient revenues. Please note that the site allocations account for inflation to non-personnel costs and will be adjusted for step, column, longevity, and compensation settlement increases according to the resource allocation model. Any additional adjustments to the site allocations will be included in the 2020-21 Final Adopted Budget along with revisions resulting from the enacted State Budget(s), 2019-20 fiscal year-end activities (e.g., carry-overs, etc.), and updates to revenue projections.

Revenues	2019-20 Final Adopted Budget	2020-21 Tentative Budget	2020-21 % of Budget	\$ Change
Local				
Property Taxes				
Base Revenue	\$ 156,641,213	\$ 165,936,931	79.98%	\$ 9,295,718
Redevelopment Agency	12,823,584	15,174,074	7.31%	2,350,490
Student Fees				
Enrollment Fees (\$46)	9,957,805	9,679,924	4.67%	(277,881)
Promise Scholars Fee Waiver	(1,490,828)	(1,372,510)	-0.66%	118,318
Out-of State Non-Resident	1,373,598	908,203	0.44%	(465,395)
International Non-Resident	7,546,670	4,735,584	2.28%	(2,811,086)
Interest	3,000,000	1,000,000	0.48%	(2,000,000)
Other	2,458,293	2,477,200	1.19%	18,907
State				
Proposition 55	1,462,741	1,437,300	0.69%	(25,441)
Lottery	2,481,417	2,355,129	1.14%	(126,288)
P/T Faculty Parity	324,409	276,560	0.13%	(47,849)
P/T Faculty Office Hours/ Medical	167,558	123,406	0.06%	(44,152)
Apprenticeship	467,362	467,362	0.23%	-
Mandated Costs	477,997	433,490	0.21%	(44,507)
STRS On-Behalf	3,848,997	3,848,997	1.86%	-
Estimated Total Revenue	\$ 201,540,815	\$ 207,481,650	100.00%	\$ 5,940,835

Expenditures	2019-20 Final Adopted Budget*	2020-21 Tentative Budget		\$ Change
Site Allocations				
Canada College	\$ 30,354,912	\$ 30,943,302	14.91%	\$ 588,390
College of San Mateo	49,028,086	48,255,625	23.26%	(772,461)
Skyline College	49,144,902	50,532,495	24.36%	1,387,593
District Office	20,951,162	21,280,037	10.26%	328,875
Facilities	16,388,483	17,135,592	8.26%	747,109
Total Site Allocations	\$ 165,867,546	\$ 168,147,051	81.04%	\$ 2,279,505
Other Employee Benefits	500,000	500,000	0.24%	-
STRS On-Behalf	3,848,997	3,848,997	1.86%	-
Retiree Benefits	4,362,483	-	0.00%	(4,362,483)
Satellite Contracts / Fac. Rentals / Sales	561,600	529,312	0.26%	(32,288)
Apprenticeship	467,362	467,362	0.23%	-
Miscellaneous	1,705,825	3,806,843	1.83%	2,101,018
Utilities	5,036,234	4,371,297	2.11%	(664,937)
Salary Commitments	5,700,740	9,268,051	4.47%	3,567,311
Managed Hiring	200,000	1,000,000	0.48%	800,000
Insurance	1,817,706	2,305,532	1.11%	487,826
Consultant / Legal / Election	585,000	985,000	0.47%	400,000
Staff Development	755,385	755,385	0.36%	-
Districtwide Technology	3,765,100	3,970,956	1.91%	205,856
Office Hours / PT. Fac. Medical	3,050,000	3,050,000	1.47%	-
Transfers Out	3,236,840	4,395,864	2.12%	1,159,024
Museum of Tolerance	80,000	80,000	0.04%	-
Estimated Total Expenditures	\$ 201,540,815	\$ 207,481,650	100.00%	\$ 5,940,835

*excludes 2018-19 year-end activities (e.g., carry-overs, etc.)