BUDGETING IN THE
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

This section of the budget document includes information on the process of budgeting within the Colleges, the District, and the State. You will read about how District budgets are organized and how they are developed, as well as how changes at the State and local levels have changed how and what is budgeted. You will also learn more about the major sources of District revenue.

Some key ideas to keep in mind when reading this document include:

- Many individuals and groups participate in the budget development process according to their respective interests, responsibilities and expertise. Ultimate responsibility for the fiscal integrity of the District rests with the publicly elected Board of Trustees. The Board, in turn, holds the District's management accountable for creating a realistic budget and adhering to it. Faculty, staff, and students are valuable participants in the budgeting process and help ensure that all needs of the District's instruction and student services programs are recognized.

- Budgeting in the San Mateo County Community College District is an ongoing, dynamic, and complicated process. Budgets are essentially estimates of projected incomes and expenditures, and they are subject to continuous revision, as new information becomes available. Many of the factors influencing the District's projected revenue and expenditures are difficult to assess and continually change, not only during the budged year, but also into future years.

- In recent years, funding for California community colleges has not kept pace with increasing costs and demands for service. Even in years when California has had a strong economy, community college funding has not increased proportionate to the increases in costs. While the California economy showed dramatic improvements in the late 1990's, since then, the decline in the technology and housing industry has significantly reduced state funding. Other significant changes have taken place in the political, social, and economic environment, which make it difficult to project a measurable improvement in the fiscal outlook for any sustained period. Examples of these change factors are changes in State government leadership, shrinking State coffers resulting from the decline in the housing industry and, more recently statewide economic growth without significant job gains.

WHAT IS A BUDGET?

Framework for Planning, Control, Accountability

In the current context, a budget is an organized estimate of revenue to be received and expenditures to be made in the coming fiscal year (July 1 through June 30). It reflects an estimate of monies to be received from a variety of sources and an assumed level of operation.

A budget is also a tool for planning, controlling, and evaluating activity. The District's budget expresses all of the individual department, division, College, and District-wide plans in terms of the monetary resource requirements for executing those plans. The process of creating a budget provides a framework for decision-makers to prioritize activities and evaluate alternatives in accomplishing the organization's goals.

It is important to remember that a budget results from a large number of interrelated assumptions and estimates. The actual level of resources and activity are never completely certain until they occur -- which may be well into the budget year or possibly at year-end. For example, a major portion of revenue is dependent on property tax collections that in turn are influenced by changes in market value and property turnover in the county during the year. The San Francisco Bay Area and San Mateo County specifically, is one of the most expensive places to live, where the sale of homes and property has fluctuated between expensive and "above the asking price." Even in recent years during the recession, housing has fared better in San Mateo County than in the rest of the State. Commercial property taxes have varied more, such as the devaluation of United Airlines' property after September 2001. Similarly, some expenditures are dependent on enrollments which in turn are influenced by student fees, employment activity and the job market, non-resident tuition, competing educational opportunities, etc.

As activities are undertaken, the budget provides a guideline for managing resources. As the unknowns regarding the budget process become known, adjustments are made to activity levels to ensure that the District meets its objectives with the resources available and takes advantage of any opportunities that arise.

Finally, the budget provides one measure of accountability. Managers are accountable for accomplishing the planned activities, and doing so within the planned resources. Comparing actual results with the budget provides some feedback on how well that is done. Of course, it is important to note that comparing actual expenditures with budgeted expenditures does not indicate whether the budget was sufficient to accomplish organization goals or whether the goals were accomplished -- the comparison only tells whether expenditures were more or less than expected and authorized.

HOW IS THE BUDGET ORGANIZED?

Systematic Classification

Basic to all revenue and expenditure accounting is a systematic classification scheme for describing and reporting transactions. This organization is in large part prescribed by State law and we have little flexibility in the way we categorize our accounts. Within these parameters, the District's budget is organized according to funds, organizations, accounts, and programs. Every item of revenue and expense is coded in this way: fund – organization – account - program.

For example:

Fund	10002	Unrestricted General Fund at Skyline College
Organization	2411	Skyline College Business Division
Account	4510	Supplies
Program	094800	Automotive Technology

The full account distribution within the District's accounting records would appear like this:

10002-2411-4510-094800

Further information on these terms will follow; however, several things should be noted at this point:

- The District must comply with generally accepted accounting principles (GAAP) as they relate to public accounting, and also comply with State Community College reporting requirements as contained in the

Budget and Accounting Manual issued from the State Chancellor's Office. This accounting system must meet the basic informational needs of many groups and individuals who need reliable information on the community college finances. As a result, the accounting system must make it possible to: (a) present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the District in conformity with GAAP; and (b) determine and demonstrate compliance with finance-related legal and contractual provisions. The portions of the coding scheme related to Fund, Account, and Program reflect these State requirements.

- Distinguishing activities by Organization is an internal dynamic denoting administrative responsibility.

- The coding scheme used in the District's accounting system encompasses more than revenues and expenses. It also applies to assets, liabilities, and ending fund balances. However, because we are concerned here primarily with an explanation of budgeting revenues and expenditures, these extensions of the scheme will only be mentioned in passing.

- The entire coding scheme is called the Chart of Accounts. Significant control is placed on the Chart in order to assure that any changes to the coding meet the required standards and ultimately records and reports the District's fiscal data accurately. Similarly, access to use of the Chart is restricted by individual user and is dependent upon their level of responsibilities and location.

- There is some duplication in the coding scheme. For example, a particular activity may be uniquely identified both by Fund for one reason and by Program code for another reason. An example is the Child Development Center (**60001**-2411-4510-**69600**).

- The term "revenue" is used here to describe inflows of monies from all sources.

- The term "expenditure" is used to describe not only those expenses which are actually paid during the budgeting year, but any obligations which are expected to be paid and are due for which actual payment may have not been actually issued.

- The fund code is a five digit number. For purposes of simplicity, a fund is commonly referred to by its first digit—or summary number.

Funds

What is a Fund?

Because of the varied sources of revenue, some with restrictions and some without restrictions, a unique type of financial accounting known as "fund accounting" is used by governmental and other nonprofit entities. Basic to fund accounting is the concept that a single fund is used to report sources and uses of resources available for, or in most cases restricted to, essentially the same purpose. This is similar to an individual maintaining separate personal checking accounts to track income and outgo for specific purposes.

Fund Balances

Revenues received in a fund are not always expended immediately. For that reason, at any particular time, funds may have a balance of unspent revenues. For a variety of reasons, these unspent revenues may remain at the end of a fiscal year and be carried over into the next year.

More technically, fund balances consist of cash or other current assets (assets which in the coming year are expected to be used, such as supplies **--** or converted to cash, such as accounts receivable) and the balance is the excess of current assets over current liabilities (amounts owed in the coming fiscal period). Therefore a fund balance is really the amount of net current assets and may or may not be in monetary form. An example of a non-monetary, current asset is the inventory of books and supplies that is held in the Bookstores.

Fund balances may be committed for future expenditures and/or restricted in their potential use. For example, much of the ending balance of the District's General Fund, which becomes the beginning balance for the next fiscal period, is restricted by external sources (Fund 3), prior commitments, and by Board designation.

Fund Transfers

Resources often cannot be transferred from one fund to another because of restrictions on the use of the monies. However, transfers can be made from the General Fund to other funds. For example, monies are set aside and transferred each year from the Unrestricted General Fund (Fund 1) to the Self-Insurance Fund (Fund 2) in anticipation of losses. In some cases, transfers occur as a result of decisions by the Board of Trustees to set aside General Fund money for specific purposes. In other cases, the source of money in other funds (e.g. State Capital Outlay) may require a match of money from the District's general fund. Regardless of the particular need to make such a transfer, the District Office accounting staff makes those financial entries and insures that the appropriate accounting requirements are met and reporting is done.

Organizations

The second major budget classification is **organization**. Each administrator in the District is assigned responsibility for some portion of the District's total resources. That area of responsibility is identified within the accounting system as an "organization." A typical organization is an instructional division, and the Dean of the division is responsible for that Organization's budget. The use of this element provides access to accounts and reports of the areas under his/her control. Similarly, access is denied to those without proper security.

Organizations are identified first by location, then by unit within the location. The first digit of the organization code represents the location. For example, organization 2411 is Skyline College's (2) Instructional (4) Business Division (11).

1- Chancellor's Office or District Central Services
2- Skyline College
3- Canada College
4- College of San Mateo

Accounts

The next level of budget classification is by **account,** actually the most specific of the numbering classifications. Accounts are numbered in a way that distinguishes assets, liabilities, fund balances, revenues and expenditures.

Assets are economic resources that are owned or substantially controlled by the District. They include cash (in the County treasury, local bank, revolving cash fund, petty cash funds, or investments), accounts receivable (money owed to the District from contractors, granting agencies, the County, student outstanding fees), inventories of supplies, equipment, land, and buildings. Assets are recorded in account numbers 9100-9400.

Liabilities represent economic obligations of the District. They include accounts payable (money owed to suppliers or unpaid wages for employees), deferred revenue (monies received but not yet earned and therefore technically owed back to the provider), and loans payable. Liabilities are recorded in account numbers 9500-

9599. Financial obligations to full-time faculty who have ‘banked” overload work compensation as a participant in the Unit Banking Program are considered liabilities on the District books.

Fund balances, representing the excess of assets over liabilities, are recorded in account numbers 9600-9800.

Revenue represents monetary resources "earned" by or allocated to the District for providing educational services. Revenue is distinguished by source: Federal, State, Local, and Other Funding Sources (which includes transfers from other funds). Revenues are represented by account numbers in the 8000s. More specifically, the four major sources as defined by State reporting requirements are distinguished as follows:

8100: Federal Revenues
8600: State Revenues
8800: Local Revenues
8900: Other Financing Sources/Transfers In

Expenditures represent the cost to the District of providing various educational services to its students. There are seven major categories of expenditure accounts required for State reporting:

1000 accounts: Academic Salaries
2000 accounts: Non-Academic Salaries
3000 accounts: Employee Benefits
4000 accounts: Supplies and Materials
5000 accounts: Other Operating Expenses and Services
6000 accounts: Capital Outlay
7000 accounts: Other Outgo & Transfers Out

The Annual Financial and Budget Report submitted by the District to the Chancellor's Office of the California Community Colleges (CCFS-311 report) identifies revenues and expenditure according to the account classifications described above.

Within the broad categories, the remaining digits of the account numbers provide additional detail. For example, all "Other Operating Expenses and Services" are assigned a 5000 account code. Accounts in the 5200 sub-group are for Reimbursable Travel Expenses and the account 5220 is used to identify mileage expense, specifically.

Programs

The last level of budget classification is **program**. Another word for program is **activity** and the latter term is more commonly used for State reporting purposes.

Programs are groups of closely related activities; and in the accounting system, program numbers identify revenues or expenditures by type of activity such as Custodial Services, Admissions and Records, or Humanities. The codes used in the instructional programs are generally based on the State TOP (Taxonomy of Programs) coding standards. Non-instructional activities follow the State ASA (Administrative Service Areas) coding. For example, the TOP category “Engineering and Related Technologies” has a number of 0900. Electronics Technology is a program within this general category and has a number 0934.00. The District uses 093400 (a six digit number).

For purposes of reporting and comparing District operations, program activities are grouped as follows:

0100-5900 Instruction
Includes expenditures for all major instructional disciplines including benefits and retirement incentives for

academic retirees

6000 Instructional Administration
Includes expenditures related to administrative support and management of instructional activities such as division deans; includes Academic Senate as well as course and curriculum development

6100 Instructional Support Services
Includes library, learning center, media (KCSM: portion related to instruction)

6200 Admissions & Records
Includes recruitment, commencement
6300 Counseling and Guidance
Includes career development, job placement, testing, school relations

6400 Other Student Services
Includes EOPS, financial aid administration, health services, student personnel administration

6500 Operation & Maintenance of Plant
Includes expenditures for utilities, custodial, buildings and grounds maintenance and repair

6600 Planning and Policy Making
Includes institutional research, management planning, College presidents, governing board, chief labor negotiator, associate chancellor, chancellor, budget office, etc.

6700 General Institutional Support Services
Includes management information services and fiscal operations, personnel management, staff development and staff diversity, and non-instructional retiree benefits and retirement incentives

6800 Community Services
Includes expenditures for community use of facilities

6900 Ancillary Services
Includes bookstores, child development center, parking, student co-curricular activities such as athletics and clubs

7000 Auxiliary Operations
Includes Associated Students, not-for-profit contract instruction (contract classes generating FTES or approved for credit are included in the appropriate Instructional Activity Codes—0100-4900), special events, public broadcasting (KCSM: portion not related to instruction)

7100 Physical Property & Related Acquisitions
Includes capital outlay projects

It is important to note that regardless of Fund, the use of account and program coding is consistent throughout the District. For example, a supply account (4510) is still a supply account (4510) whether it is in the Non-Restricted General Fund, the Restricted General Fund, the Child Development Fund, the Capital Outlay Fund, or the Bookstore Fund.

Similarly, for reporting purposes, there is integrity in the reporting structure. For instance, a contract teaching salary account (1100) cannot be paired with a non-instructional program code—say Buildings and Grounds, or Counseling, or the President's Office. A teacher teaches a course in an instructional discipline for which the District is eligible to receive funding through the calculation of full-time equivalent students (FTES). Only those codes can be used for classroom teachers' salaries and related benefits.

HOW IS THE BUDGET CREATED?

Shared Interests and Responsibilities

The District's budget development process is one of estimating total monetary resources expected to be available in the coming fiscal year and matching those resources to a prioritized set of needs. There are many "stakeholders" in the District who participate in this process. Each has an interest in seeing to it that the resources available are used in the most efficient and effective way to accomplish the District's mission.

The Board of Trustees represents the public and has ultimate responsibility for ensuring that the District prepares and adheres to a fiscally responsible budget. Theirs is a legal, fiduciary responsibility and each Trustee is ultimately accountable to the public for his/her actions.

Administrators are charged by the Board of Trustees with direct responsibility for preparing and managing the budget in a fiscally sound manner. They are accountable to the Board and to the State of California for ensuring that all legal requirements are met, that funds are used as intended by the various funding sources, that budget matters are properly recorded and reported, and that the institution "lives within its means."

Faculty, staff, and students are directly affected by the budget and need to have a voice in the decisions represented and supported by the budget. Their responsibility is to help inform those who prepare the detailed budget about the current and anticipated needs of each College program and the institution as a whole. Their feedback on the effectiveness of all programs is needed to ensure accountability for the decisions that are made.

District-wide Processes

Setting District Priorities

How should we spend our money? Answering that question is always difficult whether it is one person trying to organize his or her own budget or whether it is a group of people trying to decide on priorities. A family, for example, may agree that rent, loan repayments and food are high level commitments and should have the highest priority. But after that, there may be some sharp disagreements about the relative importance of using money for savings, clothing, entertainment and other items.

While initial budget decisions might be made with great difficulty, they then tend to become established and routine. Right or wrong, expenditure patterns become set and habits are formed about such things as savings. Usually these familiar patterns are challenged only when there are major changes to income, expenses, or life style.

With a district that has revenues well over a hundred million dollars and several different groups of stakeholders, setting budget priorities is always a matter of discussion and debate. Even if there is agreement among the majority, there are usually strongly held minority viewpoints. Nonetheless, budgets tend to develop along similar lines each year unless there is dramatic change in anticipated revenue, expense, or perceived mission **--** or some basic structural change in operations or personnel.

The District budget development process is comprehensive and complex. There are many participants in the process: the Board of Trustees, administrators, faculty, staff, students, and members of the public. Each represents a somewhat different interest and therefore often advocates different priorities. It is intended that the consultative processes of the District provide adequate voice to all of the stakeholders so that final decisions related to the budget are reflective of the varied needs of the institution.

At the District level, needs and opportunities are identified by gathering information from the Colleges, from the external environment, and from deliberations of various planning groups. The District Committee on Budget and Finance (DCBF) meets regularly to discuss and evaluate budget assumptions and strategies. College input is received through regular District-wide councils such as the District's Shared Governance Council, Instruction Council, Student Services Council, and Chancellor's Council. College input is also received when special groups are formed to address specific issues and various advisory committees, such as the District Auxiliary Services Advisory Committee (DASAC).

Through District research efforts, the local environment is constantly monitored. Information is gathered through inter-district meetings, consultants, professional associations, publications, local legislators, community and industry advisors, and others.

The District is continuously engaged in some form of long-range planning activity (i.e. strategic, educational, facilities, financial) through formalized master planning, accreditation self-study, and program review. Teams of employees, consultants, community advisors and students are drawn together for these tasks. Every year, as the budget is developed, the Colleges and Chancellor's Office review their operations in relation to the District's and Colleges' strategic plan, set new goals and objectives, and evaluate results of past activities.

The technical job of constructing a District budget is the responsibility of the Executive Vice Chancellor in conjunction with the Chief Financial Officer, the District Budget Officer and the DCBF. They provide revenue and expenditures projections for the coming year, and the Executive Vice Chancellor formally reports that information to the Chancellor and Board of Trustees. The estimates take into account such critical information as the funds remaining unspent at the end of the year (beginning balance for the next year), assumptions that go into estimating revenue, the obligations of the District (liabilities) and restrictions on the use of funds. The Executive Vice Chancellor works with the Chief Financial Officer and the District Budget Officer to communicate this critical information to those who are charged with the responsibility for preparing and managing District and College budgets.

At each of the Colleges, a mechanism for consultative budget development and review continues to evolve. These processes, which are fairly comprehensive and carefully defined, will be described in a subsequent section. The District Shared Governance Council (DSGC) is consulted on all policy matters and serves as an overall planning body. The DSGC receives budget information from the DCBF and receives recommendations from them related to budget process such as the schedule for budget development (calendar), assumptions used in revenue estimates and the allocations system, set asides for such things as staff development and instructional equipment, and overall District goals and procedures.

Allocation of District Resources

So how do resources get allocated to units within the District? An attempt has been made to allocate resources according to a formula that is intended to provide for the equitable allocation of available resources in relation to attaining planned goals. The allocation formula is based on a projection of all available funding. Many of the sources of revenue dictate how that revenue will be spent. These targeted monies are allocated according to the funding sources' guidelines. The Board of Trustees also designates the use of monies to recognize commitments or to achieve certain goals. This money is set aside in special allocations before determining the amount to be distributed to the Colleges and Chancellor's Office. The remaining monies are subject to the allocation formula.

The current allocation model used to distribute resources within the District has evolved during a particularly difficult period of diminishing overall resources, changed during the recent past situation of substantial funding with State-directed goals and is again being reviewed by the DCBF. As the sources of our funding changes, so has the allocation. The current resource allocation model was developed over a two year period beginning in 2004-05 and was implemented in 2006-07 and is reviewed annually by DCBF. Faculty, staff, and students are engaged to consider various aspects of the model and the District's Shared Governance

Council continue to be consulted on the allocation process.

The previous allocation formula was devised for the Colleges only and did not include Districtwide operations (facilities, payroll, purchasing, personnel, computing services, etc.). The current formula allows for approximately 85-86% to be provided to the Colleges and the remaining 14-15% allocated to the Chancellor's Office and Facilities.

Rather than allocating resources to the Colleges based exclusively on enrollment, the allocation formula has recognized legitimate cost differences among the Colleges in the following ways:

- During growth years, each College's allocation was based upon the respective share resulting from a three-year FTES average (resident plus non-resident FTES). Without major changes in this allocation element, the prior year's allocation as adjusted during that year for cost of living (COLA), and special on-going augmentations becomes the beginning allocation for the new budget year. This might then be adjusted further to accommodate an increase/decrease in available funding.

- Site allocations are then augmented for step increments and longevity service based upon the final position control personnel cost report available at a time certain during the development process—around July 1. An estimated salary schedule adjustment amount is set aside early in the budgeting process to be made available at this step of the process.

- The allocation model includes the ability to make special allocations for a demonstrated need. For example, this was done in 2010-11 to keep the Child Development Centers open.

District Budget Work Schedule

Developing a budget is a lengthy and time-consuming process. Many activities must start early in the prior year in order to have a budget on time for the following fiscal year (July 1 - June 30). On a Districtwide basis, a Budget and Planning Calendar is developed by the District Budget Office in consultation with the DCBF during late fall and is adopted by the Board of Trustees in January. This Calendar serves as the master schedule for all subsequent budget development activities. The Budget and Planning Calendar is disseminated to all affected District and College groups to provide a framework for individual budget-related activities taking place within the District.

The earliest stages of the budget development cycle involve a review of the allocation by the DCBF and an evaluation of the Governor's proposed budget for the community colleges by the Executive Vice Chancellor. The Governor first proposes a budget in January. The Legislative Analyst prepares recommendations on the State's budget by the end of February. The Legislature conducts hearings and proposes further changes to the Governor's proposal during the spring. The Governor presents revised revenue and spending projections in May while the Legislature's budget subcommittees deliberate on the budget. A final budget for the State should legally be in place by July 1, although this has not always been the case in recent years. After the budget is signed by the Governor, there is usually clean-up activity, called trailer bills, which then work their way through the system. These serve to clarify language, augment or provide certain special funding or possibly change some code section relating to fees, process, or guidelines. Even after a budget is enacted and trailer bills are passed, there can be changes during the year if revenue and expenditure assumptions change significantly. In the current year 2011-12, mid-year "trigger cuts" were implemented as revenue assumptions contained in the budget did not materialize.

One can follow the State budget activities and their effects on community colleges over the Internet. Both of the following sites provide regular updates on the progress of the State budget.

www.cccco.edu - The California Community Colleges Chancellor's Office
www.ccleague.org - The Community College League

Throughout the spring semester, staff in the Executive Vice Chancellor's office prepares estimates of revenue for the District and revises them according to updates on the State's budget development process. Also prepared are estimates of revenue and expenditures by analyzing other revenue sources (parcel tax, grants, and redevelopment dollars), enrollment projections, current year expenditure trends, the status of negotiations with employee representatives, legal obligations, prior commitments, rate changes for health benefits, insurance, utilities and other ongoing obligations.

Summaries of these budget projections are provided to the DCBF. Members of this Committee communicate this information to their campus colleagues, especially College Budget and Planning Committees.

A sequence of activities is initiated in early spring to develop the actual budget. Budget worksheets are developed for six major budget segments or "phases" related to various types of expenditures and funds. These worksheets are used by the College business offices and Chancellor's Office staff who are responsible for the development of their unit's budget. One of the phases, Position Control—a computerized human resource information system within the Districts administrative Banner software—allows maintenance of all regular personnel information including compensation. This Position Control budget phase projects salary and benefits costs and distributes the appropriate amounts based upon the assigned labor distribution account numbers and related FTE. Once set, these "fixed costs," combined with hourly salaries, make up approximately 90% of the base site allocations, including related fringe benefits. The remaining 10% balance of the allocation then needs to be budgeted. In addition, the Colleges and Chancellor's Office prepare an annual budget "priority" listing which includes goals upon which their budget has been developed (see section below).

During the budget development cycle, there is interaction and participation among shared governance groups, campus administrators, and Chancellor's Office staff. After this review, the Executive Vice Chancellor presents a Tentative Budget to the Board of Trustees for approval in June and that budget is used to establish beginning (but temporary) balances in the operating ledger. The Tentative Budget is actually "loaded" into the operating system and a budget is established for use (before July 1) so that expenditures required for the following fiscal year can be initiated in time for summer school to prevent interruption of services. A Final Budget is presented and adopted in September after the prior year ending balance is known, the State budget has passed, and there is opportunity for a public hearing. Pursuant to the California Code of Regulations, the District is required to adopt a Tentative Budget prior to June 30th and a Final Budget by September 15th. Two copies of the adopted budget are submitted to the California Community College Chancellor's Office on or before September 30th. Appropriate forms (311's) are also submitted to the Chancellor's Office in Sacramento.

College Processes

Setting College Priorities

While the budget process varies somewhat at each of our three Colleges, there are many commonalities. One could think of the typical process this way:

The budgeting process starts at the departmental level. Faculty, staff, and students gain direct input through the program review process and through the process of setting goals and objectives each year according to the College strategic plan. Through these and other consultative processes, programs are examined to determine their opportunities, needs, and ability to accomplish their mission.

Ultimately the findings are translated into budget requests. Division administrators assemble the budget requests for each department and with input from members of the division, prioritize the requests.

Division requests are forwarded to the vice presidents who consult with their deans as a group to establish overall priorities for their area of responsibility—instruction or student services. The vice presidents then bring their budget priorities into Cabinet sessions with the president and College business officer. At that level, broader institutional requirements are added and a College-wide budget is developed. The budget is then discussed with one or more College shared governance groups. A key group is usually a budget committee that is part of or reports to a College council. The shared governance group then studies the budget and makes recommendations back to the Cabinet. Throughout the process, the results of College and District planning efforts are used to guide budget deliberations. Usually there are multiple iterations of consultation up, down, and across the organization.

It is the responsibility of the College president to approve a budget that is consistent with the resources allocated to the College. Final reconciliation of the College budget development process with available resources is challenging. The bottom-up budget development process confronts a top-down budget allocation process. Usually more resources are needed or wanted than are available. And, like members of any family, each College, division and department questions the appropriateness of their allocation.

Internal College Allocation Mechanisms

A review of the prior year's budget and any anticipated changes to College programs is the primary basis for allocating monies within a College. The reason for this is that the major operational activities at each College are relatively stable and predictable. There is a predictable mix of full-time and part-time employees who are responsible for delivering a consistent program of instruction and a variety of expected and required instructional support services.

Because of this stability and the fact that a large percent of the budget is related to committed employment costs, budgets usually do not change dramatically each year. Most decision making related to budgets within a given year have to do with the distribution of marginal increases or decreases in the amount of money available or the redistribution of monies for supplies, equipment, travel, and other "discretionary" sums.

Increases can occur due to such factors as increases in total District revenue, a favorable College ending balance, salary savings from changes in employment, increases in enrollment relative to the other Colleges (which could influence the allocation formula), or the opportunity to use grant funds to supplement normal operating costs. Decreases can occur due to such factors as declines in total District revenue, loss of grant funds, or declines in enrollment relative to the other Colleges.

It is common to have mid-year adjustments to budgets based on changing information or actual results that differ from earlier estimates. These adjustments may be favorable or unfavorable. Unexpected mid-year declines in revenue or increases in cost are especially difficult to deal with because so much of the budget is committed early in the fiscal year. On the other hand, late budget augmentations may increase site ending balances as fully executed plans for their use cannot be accomplished within the fiscal year. The District has made it a budgeting priority to anticipate and plan for midyear cuts so as to have the ability to use the collaborative process in advance (at the beginning of the fiscal year) and not to have to make decisions in a crisis mode.

Additional decisions having budgetary implications involve establishing priorities for hiring new full-time employees, prioritizing construction and/or repairs to physical plant, and prioritizing major instructional equipment requests. The decisions on priorities ultimately are reflected in the budget.

On a long term basis, College budgets shift as old programs are phased out and new programs are introduced. Usually these shifts occur as the result of long-term, strategic planning. Such planning is informed by program review, accreditation self-study, and long-range master planning efforts. Faculty, staff, and students play a significant role in these planning efforts.

Role of Program Review

An intensive, periodic review of each academic and student services program in the District is an activity that can have profound influence in the way resources are deployed. Each College introduces the results of program review into its budget process a little differently, but however it is done, the overall College budget ultimately responds to those results.

Through program review, the College identifies what is required to support existing programs and the opportunities for program change which may include expansion, modification, or reduction. Program review provides an opportunity for programs to develop a rationale for budgetary support as they compete for resources with other existing or potential new programs.

The results of program review are used by divisions to set goals, plan activities, and prioritize budget requests. Collectively, these are reviewed by senior administrators and College-wide shared governance bodies. Program review provides a foundation on which to build College plans and budgets.

Program review is a critical shared governance vehicle for institutional planning, budgeting, and accountability. Through careful review of existing programs, the College community can understand how well it is meeting the needs of students and how effectively it is using its resources.

STATE BUDGETING

WHAT ARE THE SOURCES OF REVENUE?

The District receives revenue from a variety of sources. Each source may dictate the basis upon which the revenue is "earned" or allocated, how the revenue may be spent, and the continuing availability of the revenue. Further restrictions may be placed on the use of revenue by the Board of Trustees. The Board sometimes decides that it is in the best interest of the District to set aside monies to support special projects/purchases, provide for contingencies, or to anticipate future obligations. These are important distinctions to make when planning for the use of revenues.

State Allocation Formula

Proposition 98

General State revenue available to community colleges is dictated in large measure by constitutional amendments (Propositions 98 and 111) and enabling legislation which established a minimum funding guarantee for K-12 and community colleges. The exact amount of the guarantee is modified by factors such as prior year funding and changes in enrollment, per-capita personal income, and general fund revenue. The continuous application of Proposition 98 is currently in question. Enacted during 1988-89, the original split between K-12 and community colleges was set at 10.93% for community colleges. There have been years since 1988 that community colleges received 10.93%. In addition, the Legislature has moved expenditures in and out of Proposition 98 and the guarantee has not held up to its original intent.

Based on these legal requirements and their own projection of total revenues available in the coming year, the State Legislature and Governor ultimately determine an amount to be budgeted for community colleges. As you will see in reading the subsequent sections on the State's allocation system, there are many different factors to be considered when estimating the amount of revenue that will be received by a particular college district.

The State Chancellor has recently appointed a task force in order to determine what changes would be needed in California Community College funding formulas to improve the system's "fiscal playing field". It should be noted that the system funding per Full-Time Equivalent Student (FTES) is approximately $5,400 per FTES. This is compared to California's K-12 average of $7,708; CSU's $11,500 and UC's $21,500.

Calculation of Base Revenue

Most of the revenue received by community colleges is determined by a Statewide allocation formula. A base revenue amount is established for each community college district. The current State funding model, SB361 became effective on October 2006. The new allocation model gives each district an allocation for each college or center, but the amount would vary depending on the number of students the district serves.

In addition to this base allocation, districts receive an allocation per credit FTES that is uniform throughout the State. This per-FTES allocation is at the 90th percentile of funded FTES. Non-credit FTES is provided in a two tiered mechanism that provides a higher level of funding for classes in the areas of English as a Second Language, Citizenship, Remediation and Basic Skills, and Vocational or Occupational Education.

The purpose of this change from Program Based Funding was to provide a stable, reliable and equitable funding allocation.

The formula consists of the following components:

1. Foundation Base Revenues

<u>Multi-College Districts</u>	
Greater than 20,000 FTES	$4 million
Greater than 10,000 FTES	$3.5 million
Less than 10,000 FTES	$3 million
CPEC less than 1,000 FTES	$1 million

2. Credit Revenues
   Reported FTES x $4,565

3. Non-Credit Revenue
   Reported Non-Credit FTES x $2,626 per non-credit

4. Program Based Funding Guarantee
   Guarantee for districts which would have received greater revenue under the former program based funding model

5. Cost of Living Adjustment (COLA)
   An amount which is intended to offset the effects of inflation on community college budgets. The amount of inflation is measured by an index of the costs of governmental goods and services. The absence of COLA for the last few years does not mean that the cost of these goods and services did not rise during this time period.

6. Growth Rates
   Growth revenue assumes that districts have first restored any revenue declines from the prior three fiscal years.

Sources of Base Revenue

The base revenue for community colleges is drawn from four sources:

- local property taxes
- resident enrollment fees
- State tax subventions (augmentation to offset loss of revenue from property tax exemptions)
- State apportionment

The State apportionment is calculated based on initial estimates of the other three sources. This can be explained using the bucket analogy. The total calculated base revenue for all districts is the bucket which defines the total amount of water contained. Then an estimate is made of how much property taxes, enrollment fees, and subventions will be poured into the bucket. The empty space in the bucket that remains is to be filled by State apportionment.

Once calculated, the total Statewide apportionment is not adjusted upward, even if there are shortfalls in the other sources (and the bucket is not filled). This has made it very difficult in past years when property tax revenue, by far the largest single source, has fallen short of estimates and the State has had to reduce base revenue available (apply a deficit factor) to community college districts. On a Statewide basis, apportionment did not make up the difference created by the loss of property tax revenue.

When property tax revenue falls short of estimates, all districts share in the deficit. Even though Statewide there may be less property tax revenue than originally estimated, the amount of some local property taxes may be greater than expected. This is due to differences in the change in assessed valuation of property from county to county. Changes in local property taxes become adjustments to the State apportionment each district receives. San Mateo County's assessed valuation has remained relatively stable and continues to rise slowly as the housing market improves. Nonetheless, the District has had its allocations reduced due to Statewide over-estimation of property taxes and student fees.

Property Tax

Typically, much of a college district's base revenue is derived from local property taxes collected in a college district's service area. Estimates of property taxes to be collected are made prior to the beginning of a fiscal year and are revised throughout the year. Because of the timing of property tax collections (December and April), the actual amount cannot be determined until late in the fiscal year.

A few districts derive enough revenue from local property taxes and fees to fully fund their base revenue amount. Therefore, they do not receive any apportionment revenue from the State. Such college districts are referred to as "self-supporting" or "basic aid" (a term more appropriate to K-12 school districts) and they may not be affected by Statewide shortfalls in property tax revenue since there is no apportionment to be adjusted. If local property taxes are sufficient to provide revenue in excess of the base revenue allocation calculated by the State, the district may keep the excess.

There is an exception to the above related to the amount of property tax derived from the Educational Revenue Augmentation Fund (ERAF). Starting in 1992-93, ERAF legislation redirects to schools and community colleges (K-14) a portion of local property tax that otherwise would accrue to counties, cities, special districts, and redevelopment agencies. However, **this additional property tax cannot be used to exceed a district's revenue limit**. The amount of ERAF monies available to a district is limited to the amount needed to bring its total revenue up to the district's calculated base revenue. If, however, a deficit factor is in force during that year, the ERAF capacity of the district is the amount which will bring the District up to the true base (not deficited) revenue figure.

For the past few years, the San Mateo County Community College District has received State apportionment. However, due to State budget constraints, the revenue limit has been decreased and the District achieves Basic Aid Status in 2011-12 wherein there will be sufficient local property taxes and student fees to meet the basic funding level. Reduced revenue limits will likely create more districts reaching the self-supporting status over the next decade.

Relying heavily on property tax has its drawbacks. Whereas State apportionment is allocated in relatively even amounts throughout the twelve months of the fiscal year (July-June), most property tax revenue is received in two months, December and April. Having most cash inflows in the sixth and tenth month of the fiscal year puts a significant strain on a district's cash reserves because of cash requirements for payroll and other demands on a regular, monthly basis. As a result, the district must either maintain higher cash balances of its own (through reserves and ending budget balances) and/or engage in short-term borrowing through Tax Revenue Anticipation Notes (TRANS).

Other problems may be faced by districts which become self-supporting. It would be easy to rely on excess funds to support continuing commitments such as permanent salary increases. However, it should be clear that the excess funds may be in jeopardy. Because of the State's fiscal constraints and because there is growing concern related to inequitable distribution of resources among colleges and schools within the State, possible legislation changes might propose to redistribute the excess funds to other districts. This would save apportionment funds for the State and/or improve the budgets of low revenue districts.

Another problem faced by districts when they cross over to self-supporting status is the possibility of swinging back and forth between self-supporting and reliance on base revenue (apportionment) from the State. This possibility in the early years of being self-supporting requires changes in the way affairs are managed. For example, under the State's current allocation methods, it may help revenue to increase enrollment. When self-supporting, however, districts do not automatically receive more revenue for more enrollments, but they might realize increased costs. Under this circumstance, it would not benefit the district financially to grow—unless it is a planned, efficient growth. Here is where efficiency measures come into play. It also becomes important to determine a planned use of revenue over which the district has full control.

Enrollment Fees

In recent years, enrollment fees have become a significant part of available revenue for community colleges. To understand how this revenue flows to colleges, we need to distinguish between monies received from resident versus non-resident students.

Of the enrollment fees received from California residents, 98% is considered part of the base revenue for the College district as described earlier. The remaining 2% is used by the college district to defray administrative costs associated with collecting and accounting for it. That 2% is not considered part of the State allocation. Initiated in 1985, the enrollment fee rate is set by the State. In each of the past two years, this fee has been increased – from $26 to $36 per semester unit in summer 2011 and again in summer 2012 to $46. One might think that this increase would increase available revenue to a district. However, any increase in student enrollment fees merely reduces the State apportionment needed to meet the calculated base revenue (refer back to the section on "Sources of Base Revenue" above).

While non-residents pay the same enrollment fees as resident students, they also pay non-resident tuition. All of non-resident tuition is kept by the college district and is not considered part of the State allocation. On the other hand, no State allocation is received for non-resident FTES. The District's Board of Trustees sets the amount of fees charged to non-resident students at a rate intended to fully recover all costs of their education.

Subventions

The last component of base revenue is financial assistance received from the State to offset the loss of revenue suffered as a result of tax relief granted to certain groups. This assistance is referred to as a subvention.

For example, residential property owners who occupy their homes receive a property tax credit. Because this results in reduced property tax revenues for community colleges, the State uses part of its general revenues to offset the loss to the colleges.

Non Base Revenue Sources

In addition to base revenue and sources identified earlier in this document, the District receives revenue from a variety of other sources.

Following are some of the additional sources of funding:

Student Fees

The District collects student fees for health services, parking, audit classes, instructional materials, and certain types of payment and record processing.

Revenue from fees for health services and parking can only be spent on the provision of those services. Funds collected for instructional materials fees are spent on classroom materials distributed and made available to students in the particular classes. There are no restrictions, however, on revenue received from the other fees.

Contributions

Contributions are received from private sources to invest in and support a number of the District's programs. For instance, there are partnership arrangements like the agreement between San Mateo Union High School and the College of San Mateo and Skyline College's Automotive Technology Department and Hyundai Motor Company USA.

Some contributions are directed to the San Mateo County Community College District Foundation (SMCCCDF). The Foundation is a separate entity and is not included in the District budget process. Although most of the Foundation funds are used for scholarships, the Foundation has increased fund-raising efforts within the last few years in order to support a broader range of activities.

Community Education Services

The District offers educational services to other organizations and to the public for which it charges fees that are intended to cover all direct and indirect costs of providing the services. The courses or classes may be for credit or not-for-credit. Community education course fees are set to fully cover the costs of the programs.

Redevelopment

When local cities approve a redevelopment project that utilizes tax increment financing (TIF), provision is made for community colleges to receive revenue. The amount received depends upon whether the district is a revenue limit or a basic aid district at the time the redevelopment agency (RDA) adopts its plan. Some of this revenue is restricted for use on capital outlay projects. Typically, revenues continue for 30 to 40 years.

Currently, the District receives redevelopment revenue from 17 projects in ten cities: South San Francisco, Millbrae, Belmont, Redwood City, East Palo Alto, San Mateo, Daly City, Pacifica, San Bruno and Menlo Park. In addition, the District has "hold harmless" agreements with Brisbane and San Carlos; these agreements provide that the District will be reimbursed for any losses directly attributable to redevelopment activities. The specific amounts to be received and the timing of the receipts are separately negotiated with each agency. The annual revenue will grow incrementally for the next 25 years reaching a maximum annual amount of $2.2 million.

Because of budgetary issues, recent legislation abolished redevelopment agencies. The State Supreme Court rendered its decision on the challenge by redevelopment agencies (RDAs) regarding two bills enacted as part of the 2011-12 State budget. The Court ruled that Assembly Bill 26 of the First Extraordinary Session (ABX1 26), which dissolved RDAs, was constitutional. Its companion bill ABX1 27, was ruled unconstitutional. ABX1 27 would have allowed an RDA to remain in existence if it provided a payment to the county treasury to support local schools and other agencies, which the State would have used to offset its General Fund spending. The decision eliminated more than 400 RDAs throughout California.

The termination of RDAs will direct local property taxes to go back to local governments and local educational agencies (LEAs), thus, allowing the State to recapture approximately $1 billion through school district revenue limits and community college apportionments; the adjustment is included in the Governor's 2012-13 proposal. The District estimates its share of RDA funds returned to general property taxes to be about $2.8 million in 2012-13.