

VENTURA COUNTY COMMUNITY COLLEGE DISTRICT

BUDGET CRITERIA (GUIDING PRINCIPLES) AND ASSUMPTIONS

FISCAL YEAR 2017-18 (FY18)

The District will develop a budget that allocates resources to achieve goals and objectives established in the District's master plan. The Budget Criteria and Assumptions serves as a guide in developing the annual budget by setting forth the guiding principles by which the budget will be built and by providing assumptions which are the basis for the financial projections of revenue and expenditures. The budget is developed through a collaborative district-wide process that involves the Board of Trustees, the Chancellor and his Cabinet, the District Council on Administrative Services (DCAS), and the Chancellor's Consultation Council. The budget is developed in more specific detail through collaboration at each college.

Guiding Principles

A budget will be developed that:

- Allocates resources to achieve goals and objectives established by the Board
- Provides resources for continued improvement of student success and learning outcomes
- Provides resources and support for high quality, innovative instructional programs and services to students
- Balances enrollment goals and student access
- Increases and/or maintains sufficient levels of institutional effectiveness while becoming more efficient and cost effective
- Works to maintain technological currency and efficiency by updating and replacing equipment
- Provides resources to address the total cost of ownership and to maintain building and grounds
- Continues to increase the reserves for unfunded liabilities each year until such unfunded liabilities are eliminated

Assumptions

Budget Assumptions are the basis for the financial projections of revenue and expenditures contained within the budget allocation process. While these Assumptions are based on the most current information available, it is recognized that ever-changing circumstances can alter the economic foundation upon which the Assumptions have been built.

The initial Budget Assumptions presented at this time are preliminary in nature and will be revised whenever significant and reliable information becomes available during the State budget development process. Events such as the "May Revise" of the Governor's

Budget, state mid- and year-end adjustments (P2 apportionment) in June, and legislative actions to approve a State budget may impact these Assumptions and the development of the Ventura County Community College District's budget.

The budget development process, the Tentative Budget, and the Adoption Budget will be based on the assumptions described in this document as modified periodically.

Revenue

Governor Brown's proposed 2017-18 Budget reflects a cautiously optimistic outlook. While the Governor recognized the economy is continuing to recover and unemployment rates continue to drop, he noted state revenues are coming in below estimates and the current economic recovery is now the third longest on record. The Governor emphasized the need for prudent fiscal practices that provide for a balanced budget and building reserves at the state level. For General apportionments, the Governor has proposed an increase of \$23.6 million in base allocation funding, \$79.3 million (1.34%) to fund growth and \$94.1 million to fund the estimated 1.48% statutory COLA. Unrestricted revenues will be budgeted in accordance with BP and AP 6200, including the requirement that any growth dollars will be budgeted in the year following the year in which the growth is actually earned.

Educational Services

The Governor proposes an increase of \$150 million in one-time funds to provide grants to community colleges for developing and implementing Guided Pathways Program – integrated, institution-wide approaches focused on improving student success. Colleges can use the funds for activities such as: design academic roadmaps and transfer pathways that explicitly detail the courses students must take to complete a credential or degree on time; provide targeted advising and support services; redesign assessment, placement, and remedial education policies and courses; and redesign or refresh courses and programs to better align learning outcomes with the requirements for successful employment. Further details will be released with the State Budget trailer bill language.

The Governor's proposals for other community college programs include \$20 million in one-time funds for an Innovation Awards program where the Chancellor's Office determines the eligibility of community college proposals for innovative practices and \$5.4 million to provide the 1.48% COLA to Apprenticeship, Extended Opportunity Programs and Services, Disabled Student Programs and Services, Special Services for California Work Opportunity and Responsibility for Kids Recipients, and the Child Care Tax Bailout programs.

Since it is not yet known how these funds will be distributed, it is recommended that the FY 2017-18 Tentative Budget be built without these categorical increases. If more specific information is disseminated in the May Revise, the budget augmentations will be included in the FY 2017-18 Adoption Budget.

The Governor's January proposal did not include any funding augmentations for the other categorical programs, and so it is also recommended that the current categorical programs be built assuming the 95% funding guarantee will still be in place, consistent with prior year budget assumptions.

Enrollment Management

The District receives revenue primarily through the generation of FTES (full-time equivalent students). The FTES are generated by each college; however, the state funded cap (the maximum number of FTES for which the state will pay) is allocated by the State at a District level as opposed to an individual college level. A revised apportionment growth formula was implemented in the 2015-16 budget year which utilizes numerous economic and demographic factors in determining the District's growth factor. While the Governor's January proposal gives a 1.34% growth factor to the system, under the new growth formula, our District anticipates a constrained growth rate of 0.56%. The Tentative Budget will be built with the assumption that FY18 base FTES will be the same as FY17 actual operational FTES, which excludes the impact of the shift of 685 FTES. While we do not anticipate any growth FTES, the state will fund us up to 89 additional growth FTES if we do exceed our restoration target. These FTES would be budgeted in the following year.

Salary and Benefits

The cost of personnel makes up a significant portion of the District's budget and continues to increase for salary column/step movement and benefits. Care will be given to review and eliminate vacant positions and redundancies, and create consolidations where possible and necessary to reduce costs and increase efficiencies while recognizing the need for additional support of enrollment growth and student success efforts. For the Tentative Budget, salaries costs will include step and column increases, as well as increases in contributions for pension costs. For FY18, employer contribution rates for the State Teachers Retirement System (STRS) and Public Employee Retirement System (PERS) are 14.43% and 15.8%, respectively. The impact of tentative agreements will be budgeted when known.

Proprietary (Enterprise) and Auxiliary Funds Food Service and Child Care Center

The enterprise/auxiliary funds account for business operations that are to be managed similar to private enterprise and will be budgeted assuming they are self-supporting.

Infrastructure Funding

The Infrastructure Funding Model represents the methodology for distribution of certain variable revenues such as interest income and miscellaneous revenue to address the infrastructure needs at the colleges. The colleges determine the budgeting of these

funds within the allocation categories in accordance with their specific budget development processes and priorities.

Reserves

The District has designated its ending balance into five categories: State Required Minimum Reserve, Revenue Shortfall Contingency Reserve, Budget Carryover, Designated Reserves and Unallocated Ending Balance. The first year growth revenue is earned it is added to the unallocated ending balance. Growth dollars are budgeted in the year following the year in which the growth is actually earned.

State Required Minimum Reserve

In accordance with the State Chancellor's Office Accounting Advisory FS 05-05: Monitoring and Assessment of Fiscal Condition, the State Chancellor's Office requires a minimum prudent unrestricted general fund balance of 5%. To ensure the District does not drop below this minimum requirement, the Board authorizes the segregation of this amount in a reserve designated for that purpose.

The Revenue Shortfall Contingency Reserve

This reserve is designated to cover any mid-year reductions (including, but not limited to, statewide property tax shortfall, enrollment fee shortfall, general statewide deficit, mid-year "triggers", etc.), thus negating the need for mid-year reduction in operating budgets. This reserve was exhausted in FY12 due to trigger cuts, enrollment fee, property tax shortfalls, etc. The District faced these same potential mid-year revenue reductions in FY13 at which time the Board authorized \$6 million to be designated as a contingency for revenue shortfalls. It is recommended that the Board authorize \$5 million designated as the Revenue Shortfall Contingency for FY18.

Budget Carryover

The Budget Allocation Model allows colleges and the District Administrative Center to carryover 2% of their prior year Unrestricted General Fund Budget.

Designated Reserve

Recognizing the extensive infrastructure and one-time expenditure needs that cannot be met through existing budgets, the Board has approved designating a portion of the Unallocated Ending Balance to address these needs. For FY18, designated reserves include \$2.4 million designated for State Teachers Retirement System (STRS) and Energy Efficiency.

Unallocated Ending Balance

Unallocated ending balance is the remaining balance that has not been designated for the other four reserves or uses. This balance is maintained in large part to augment cash to handle the significant cash flow requirements of the District. The Unallocated balance would also be used to cover any mid-year budget reductions beyond what has been designated in the Revenue Shortfall Contingency Reserve, and for any other

unanticipated/unbudgeted expenditures approved by the Board or any one-time use of funds included in the Budget.

Compliance

Budgeted expenditures will reflect compliance with all existing collective bargaining agreements, external requirements, laws, including the Education Code, Title 5 regulations, Full Time Faculty Obligation Numbers, FTES targets, the 50% law, and financial accounting standards (such as GASB, including post-retirement health benefit costs), etc.

Allocation

The allocation of resources will be in accordance with the Budget Allocation Model approved by the Board in May 2007 and modified on March 2009, April 2012, and March 2015.

Timeline

The Tentative Budget will be presented to the Board for approval in June 2017 with the Adoption Budget planned for presentation to the Board for approval in September 2017.