

VENTURA COUNTY COMMUNITY COLLEGE DISTRICT

BUDGET ASSUMPTIONS AND GUIDELINES

FISCAL YEAR 2012-13 (FY13)

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 Governor has proposed a budget that addresses a state budget deficit of \$9.2 billion. This budget relies on expenditure reductions, revenue increases (tax increases that must be approved by the voters); and other measures. If the tax increases are not on the ballot or the voters fail to pass the increases in November 2012, the Community College system can anticipate significantly greater cuts (approximately \$6.8 million to VCCCD in additional reductions) for the fiscal year. In addition, the Governor's Initial Budget Proposal is only the beginning of the State budget process, and many variations to that proposal could occur prior to final approval of the State budget. In order to address these possibilities, while ensuring an adequate level of financial stability, it is recommended that the budget be built utilizing a combination of reductions in expenditures (class schedule reductions, organizational structural changes, and other staff and operational reductions), as well as the potential use of reserves.

Similar to the prior year, the Governor's initial budget includes midyear "trigger" cuts if the tax initiatives fail. In the current year (FY12), the District's expenditures are approximately \$3 million greater than our ongoing revenue (based on the triggers for this year). In addition, the District expects inflationary increases in personnel-related costs of approximately \$3 million district-wide. Therefore, the District will begin FY13 with a budget shortfall of approximately \$6 million dollars (without state action). It is probable that trigger cuts again will be implemented in the FY13 year due to failure of the tax initiative, a potential midyear revenue reduction to the District of an additional \$6.8 million. **It is therefore recommended that the Tentative Budget be built to eliminate a budget shortfall of approximately \$8 million; approximately \$3 million attributed to cost inflation, approximately \$3 million in initial FY12 budget deficit and FY12 triggers, plus an additional \$2 million to partially protect the District in the event of failure to pass the tax initiatives and the resulting FY13 trigger cuts.** This will still leave the potential trigger cut exposure to the District of \$4.8 million, which we recommend that the Board authorize be covered by reserves in FY13 should that occur.

If this recommendation is approved, and the tax initiative fails, the FY14 budget year will need to address the \$4.8 million of remaining FY13 trigger cuts as well as additional inflationary increase in expenditures of approximately \$3 million, for a total of \$7.8 million in FY14, plus any other FY13 on-going mid-year reduction as

well as any additional state reduction for FY14. Planning for the potential in FY14 will begin immediately.

DCAS recommends, for the Adoption Budget, that if the District's projected revenue shortfall for General Fund-Unrestricted is greater than that projected in the Tentative Budget; the Board will authorize the additional use of reserves. This use of reserves allows for a one-year transition in order to develop more permanent and well-planned solutions

Although these proposed reductions are significant, these guidelines provide a responsible allocation plan and are designed to allow the colleges to fund core priorities for FY13. They further allow adequate time to better prepare for more additional significant reductions beyond those to be experienced in the upcoming budget year, and to ensure fiscal stability and sustainability of the District in times of a historical statewide fiscal decline within a highly volatile process of State budget determination. In developing the final budget, the first priority will be to allocate resources sufficient to maintain those functions that support the core mission of the District and colleges in providing high quality instructional services.

The initial Budget Assumptions and Guidelines 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, ballot results, 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 Tentative and Adoption Budget will include personnel actions presented to the Board in March and April.

The budget is developed through a collaborative district-wide process that involves the Board of Trustees, the Chancellor and his Cabinet, DCAS (the District Council on Administrative Services, the district-wide budget committee), the Chancellor's Consultation Council, and in more specific detail through collaboration at each college.

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

The Governor's budget provides the Community College System \$218.3 million to partially "buy back" the accounting deferral on the state's books. This would provide no additional operating funds for community colleges in 2012-13. **To partially protect the District in the event of midyear trigger cuts, \$2 million will be removed from revenue and be set aside as a contingency.**

Student Services

Because of past years' budget reductions to categorical programs, the colleges developed integrated models to maintain core and/or mandated student services with the goal of meeting the unique needs of special populations beyond those mandates, and to better coordinate outreach, orientation, advisement and retention activities.

The Governor's 2012-13 Budget proposes to consolidate funding for essentially all categorical programs into one "flex item". This proposal is in contrast to the current flexibility option, which allowed consolidation of a smaller number of categorical programs and, once exercised, required that those funds only be spent for categorical purposes.

With the Governor's proposal, districts would have broad discretion, with the exception of appropriations protection for Foster Care Education Program and a portion of Disabled Students Program funds, to spend these monies on whatever they deem to be their local priorities to achieve student success. Categorical funds would, in effect, become general purpose monies. Under the Governor's plan, this new flexibility is intended to be permanent, with implementation beginning in 2012–13.

This consolidation proposal is contrary to the final recommendations of the Student Success Task Force, and is opposed by various student services and advocacy groups.

Because of the time expected to be required for transition, should this proposal be approved, the FY 2012-13 student services budgets will initially be developed within the existing individual categorical programs. The colleges are mindful that, should the consolidation proposal be included in the final State Adopted Budget, local priorities will need to be identified and a transition plan for the allocation of resources developed and ultimately implemented.

Enrollment Management

The District receives revenue primarily through the generation of FTES (full-time equivalent students). The FTES are generated by campus; however, the state funded cap (the maximum number of full-time equivalent students for which the state will pay) is allocated by the State at a District level as opposed to an individual campus level. Since the budget has been declining over the past several year, the District has been serving a significant number of students (FTES) for which we do not receive funding. The budgets (and class offerings) for FY12 were built with the intent of significantly reducing that number of unfunded students, however the trigger reduction in funding was coupled with an additional reduction in funded FTES. It is projected that we will end FY12 with approximately 1,700 unfunded FTES.

Similar to past years, in FY13 it is our intent to build the class schedule and resulting budgets to include a significant reduction in the unfunded FTES. The goal is to bring the unfunded FTES down to 500, approximately 2% of the District's total FTES. This goal is to ensure a cushion so that the district doesn't fall below funded cap. Each college will determine their specific class schedule and offerings, which will be gradually reduced and focused toward the colleges' core missions, resulting in serving students for which we are funded. The distribution of FTES reduction will be strategically made to ensure that Ventura College maintains its "medium size college" designation and further ensuring that Oxnard College does not reduce too rapidly causing a spiral effect.

If the FY13 trigger cuts are enacted, the results would be an additional workload reduction to the District of approximately 1,500 FTES. The colleges' will have time to make adjustments to the spring schedule to partially reduce some of those unfunded FTES. If the tax initiatives are approved by the voters, we do not anticipate increasing the spring schedule, since we will still have approximately 500 unfunded FTES.

Expenses

Expenditures will be developed with the goal of being sustainable within the projected reduction in state revenue. However, if reserves are used to mitigate the impact of the reductions in FY13, that solution will be temporary and will need to be addressed in FY14. **Budgets will be built to support preliminary priorities and plans for FY 13 and include the implementation of significant structural changes to the colleges and DAC.**

If upon passage of the State budget, the District's projected overall shortfall for General Fund-Unrestricted is greater than that included in the Tentative Budget, it is recommended that the Board authorize the additional use of reserves so that mid-year operational reductions are avoided. These reserves will come from the Revenue Shortfall Contingency and, if exhausted, the Unallocated Reserves. **The use of reserves allows for a one-year transition** in order to develop more permanent solutions to those solutions already included in the FY13 budget plan. Expenditure budgets will be built assuming there will be no mid-year reductions to the FY13 operating budgets.

Position Control

Although there have been no general salary increases for the past several years, the costs of personnel (i.e., salary columns, steps and benefits) continue to increase. 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. Salaries include step and column increases only.

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

The enterprise/auxiliary funds account for business operations that are managed similar to private enterprise and need to be self-supporting. Because of that requirement, as well as the difficulty to operate competitively within the changing commercial environment, we will be proposing significant changes to our commercial operations in order to be financially viable and avoid the need to use general fund to cover operating losses.

Over the past several years, the bookstores and food service operations have seen significant declines in sales and gross profit. This trend is expected to continue as students benefit from off-campus book and food service options. **In FY13 the bookstore will no longer offer online sales** as this option proved to be very labor intensive and there are numerous commercial options available to students.

The cafeterias have seen ongoing net operating losses over the past five years due to the decline of sales and the high cost of personnel. Although we have made significant changes to staffing patterns, losses continue. In FY13, **food services at Moorpark and Ventura colleges will change to an all vending operation. Oxnard College will continue to offer food service through their CRM lab, augmented with expanded vending services.** The expanded vending services will not require personnel. Therefore, those positions are being presented for elimination. In an effort to maintain the students' social environment, the cafeteria seating area will remain open for student use.

Structural Deficits

Over the past several years the State has eliminated categorical funding for such items as Instructional Equipment/Library Materials (IELM), Scheduled Maintenance, Telecommunications and Technology Infrastructure Program (TTIP) funding for libraries, and the receipt of restricted lottery funds has significantly decreased. In addition, when that funding was provided by the State, the District eliminated the majority of any General Fund support for those items. The cost of these items has remained and, in fact, is growing. These items are central to the core mission of the colleges and the District, and remain un-addressed from a budgetary standpoint.

In order to address this structural need, a solution and phased-in funding plan will be presented to the Board under separate cover as a recommendation for modification to the current Budget Allocation Model.

Reserves

The District has designated its ending balance into four categories: State Required 5% Minimum Reserve, Revenue Shortfall Contingency Reserve, Budget Carryover, and Unallocated.

Budget Carryover

As a part of the current Budget Allocation Model, funds designated for Budget Carryover are currently limited to 1% of the prior year budget. **Because of the uncertainty of the state fiscal condition and the expected magnitude of the FY13 budget shortfall following the significant reductions in the prior three years, the sites will be allowed to carryover (into FY13) up to 2% of their prior year budget if those funds are available at the end of this year (FY12).** The limitation of 1% will be reinstated in subsequent years, perhaps through a recommendation of phase-in.

State Required 5% 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 and property tax shortfalls, etc. The District faces these same potential mid-year revenue reductions in FY13; at a minimum, our remaining trigger cut exposure is \$4.8 million. We recommend the Board authorize the segregation of \$6 million (an increase of \$1 million from the prior year) to be transferred from the unallocated reserves to replenish the Revenue Shortfall Contingency Reserve for FY13 in order to cover any trigger cut exposure as well as any enrollment fee and property tax shortfall.

Unallocated Ending Balance

Unallocated ending balance is the remaining balance that has not been designated for the other three reserves or uses. This balance is maintained in large part to augment cash to handle the significant cash flow requirements of the District as the State continues to delay our payments of millions of dollars in state apportionment (deferrals). 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.

DCAS recommends that the Tentative Budget be built utilizing \$2 million contingency against the failure of the tax initiatives. DCAS also recommends if, upon passage of the State budget, the District's projected revenue shortfall for general fund-unrestricted is greater than that assumed in the Tentative Budget; the Board authorize the use of additional unallocated reserves. Any reserves used to mitigate the impact of the reductions in FY13 will provide a temporary solution and will need to be addressed in FY14. The use of reserves allows for a one-year transition in order to develop more permanent and well-planned solutions beyond that already included in the FY13 budget plan.

The balance of these Unallocated Reserves may be needed in subsequent years as current projections include the continuing decline of state revenue due to the uncertainty of the Community Colleges' share of Proposition 98, the under-funded growth rates, continuing property tax and enrollment fee shortfalls, uncertain prospect of tax increases, and the State's failure to yet identify a permanent solution to the overall statewide budget structural deficit, which could result in additional, subsequent year budget reductions.

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, 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 10, 2009.

Timeline

The Tentative Budget will be presented to the Board for approval in June 2012 with the Adoption Budget planned for presentation to the Board for approval in September 2012.

Ventura County Community College District

Infrastructure Funding Model

Recommendation

The District general Budget Allocation Model be revised to exclude specific revenues, and that revenue be re-directed, through a new and different allocation process, to the colleges to address infrastructure needs such as scheduled maintenance, furniture and equipment, library materials and databases, technology refresh, etc., and the revenue be re-allocated gradually through a transition process over the next several years.

Introduction

This proposal is meant to concentrate upon a multi-faceted and interlocked issue. The proposal addresses: providing partial funding for each college's infrastructure at a time when the state has eliminated or reduced that funding; taking action to correct the Accreditation Recommendations from the ACCJC's identified problem of "Total Cost of Ownership"; and, further stabilizing the District's General Fund – Unrestricted Budget Allocation Model, used primarily for instruction, some student services, and general operations.

In the last few years, the State has reduced or eliminated funding for Instructional Equipment/Library Materials (IELM), Telecommunications and Technology Infrastructure Program (TTIP), and scheduled maintenance. All of which seems invisible but essential aspects of our institutions' infrastructure. The District's past practice of including variable, and sometimes volatile, funds in its General Fund Unrestricted Budget Allocation Model further destabilizes funding. In 2010, our colleges received Accreditation Recommendations from the ACCJC to address resource allocations for the "Total Cost of Ownership." In an effort to initialize the foundational funding of these needs and take direct corrective action to remedy the Accreditation Recommendations, the District Council of Administrative Services (DCAS) proposes a modification to the general Budget Allocation Model and an establishment of an Infrastructure Funding Model. This proposed modification stabilizes the general Budget Allocation Model by moving the variable revenues to a model to be created for purposes that have variable needs.

Background

Currently, the District distributes nearly all its unrestricted general fund resources through a single funding allocation model. Those resources include state apportionment (enrollment fees, property taxes and state appropriation), non-resident tuition and fees, lottery revenue, interest income, and miscellaneous other fees and

revenues. The general Budget Allocation Model recognizes that certain services, such as payroll, purchasing, accounting and human resources are best provided centrally. The costs of these centralized services are removed from the funds to be allocated to the colleges. Through the general Budget Allocation Model, the balance of the resources is distributed to the colleges using three allocation segments: Class Schedule Delivery Allocation, Base Allocation, and FTES Allocation.

The general Budget Allocation Model considers the instructional program and what is necessary to deliver the class schedule, based on several factors. Approximately 52 to 54% of the funding is based on the colleges' respective instructional programs. The Base Allocation recognizes and provides for the fact that, regardless of size, a college has particular fixed costs, for example administrative salaries. That assumption is evidenced in the Base Allocation of 15% of available resources being distributed equally to each college. FTES Allocation, which is the remaining approximate 31%, is distributed based on each college's share of the District's total FTES.

FTES is the basis for the State's allocation of General Fund – Unrestricted funding to the District. Conspicuously, neither the State allocation model nor our current district Budget Allocation Model considers funding based on, or for, college infrastructure (e.g. size of the campus (number of buildings), age of the buildings, number and age of equipment, etc.)

Rationale

Several years ago, faced with its own funding constraints, the District eliminated the majority of General Fund – Unrestricted (Fund 111) support for library books and materials, instructional materials and equipment (IELM), scheduled maintenance, and technology equipment refresh and replacement and relied primarily on restricted (categorical) funding provided by the State for those purposes as well as college carryover of general funds unspent from the prior year.

During the past several budget cycles, the State has eliminated categorical funding for IELM, TTIP and scheduled maintenance. Furthermore, the receipt of Restricted Lottery Funds, which could also be used for those purposes, has also significantly decreased. Faced with the elimination and reduced funding from the State for these items coupled with the ongoing and growing need to support facility maintenance, the District faces a structural budget deficit and must alleviate the strains on the infrastructure.

For several years, the District has faced these infrastructural financing deficits in several critical elements that are central to the core mission of the colleges and the District. These internal circumstances have been called to the attention of the Board of Trustees over the past several years and specifically during the approval processes for the Adoption Budget for 2010-11 and the Tentative Budget for 2011-12, as well as through the recent accreditation process, with an acknowledgement that they must be addressed.

Status

Over approximately a two-year period, DCAS has diligently studied and discussed this matter extensively and now, after months of review and deliberation, is presenting an Infrastructure Funding Model (IFM) to address this multi-faceted problem. Although the proposed Model will not fully address all funding needs identified, the intention is to establish a foundational allocation process that will provide each college a dedicated, ongoing (although variable) source of funds for mitigating some operating concerns while assisting in the maintenance of facilities and equipment in order to provide quality instructional programs. In addition to the pressing need to address the deficits in deferred maintenance and other infrastructure needs, the Board of Trustees long recognized that the inclusion of certain variable revenues such as interest income, lottery, and miscellaneous revenue in the existing resource Budget Allocation Model was not optimal. The historical practice of mixing on-going—and therefore relatively stable—revenue streams such as apportionment, with unpredictable and less reliable revenue such as interest income is out of alignment with sound financial management.

Additionally, colleges received “Recommendations” from the ACCJC for giving insufficient attention to the “total cost of ownership” in their operating budgets as it relates to their facilities and infrastructure. This is a strong “recommendation”; the visiting teams cited Standard III.B.2.a most frequently. The proposed changes to the Budget Allocation Model would begin to address this recommendation and demonstrate progress to remedying the deficiency cited.

Considerations

DCAS’ emphasis has been focused on the identification of:

- Structural deficit categories that demanded the most attention,
- Revenue sources that could best be used to resolve the deficits,
- A rational basis for allocation of funding to each category,
- A reasonable funding rate, and
- A method of transition to redirect resources from the general Budget Allocation Model to address the issue, while resulting in the least impact to ongoing college operations.

It was emphasized throughout the review process that the reallocation of resources from the General Allocation Model to an Infrastructure Funding Model would not generate additional resources. It would, however, provide a dedicated, ongoing foundational allocation that the colleges could use annually to address these needs. DCAS both understood and accepted this concept and saw the benefit in the reallocation and the resultant easing of contention from competing factions for the use of these resources during budget development.

Recommendations

The results of this review and deliberation are as follows:

Specific Revenue Categories would be segregated from the current general Budget Allocation Model. They are:

- Lottery Proceeds
- Interest Income
- Enrollment Fee Admin Fee
- Miscellaneous - other

These revenue sources were identified as a result of their relative instability to other funding sources and in recognition that a number of districts, statewide, did not include these resources as a part of their general Budget Allocation Model, but instead allocated them for specific purposes. Further, based on their unrestricted nature, the redirection of these sources does not violate any state regulations or statutes. Finally, DCAS fully understands that the colleges were currently using a portion of their General Fund allocations to address their infrastructure needs and, thus, the redirection of these sources could, over time, be mitigated.

Specific Expenditure Categories would be established for:

- Scheduled Maintenance and Capital Furniture (including classroom, faculty and administration)
- Library Materials and Databases
- Instructional and Non-instructional Equipment
- Technology Refresh and Replacement (hardware and software)
- Other – To be restricted to one-time and not on-going expenditures, such as new program/process start-up costs, staff innovation, and program specific accreditation (e.g., nursing, dental hygiene, child development)

Although these costs are necessary and fundamental to the maintenance of a quality educational institution, each category's need and frequency is ongoing and variable and, therefore, is better funded from resources which demonstrate a similar pattern.

Specific Funding Rates would be agreed to and regularly reviewed.

A transition plan would be used as a vehicle to move the funds from the current general Budget Allocation Model to the Infrastructure Funding Model over a period of years beginning with FY13. The transition process reallocates the funding as follows:

- In the first year move receipts in excess of that budgeted for those specific revenues in FY12 to the Infrastructure Funding Model.
- Reallocate any savings between budget and actual expenditures in FY12 in budgets that are not eligible for carryover (i.e. Districtwide Services and Utilities)

These resources were identified for the initial implementation as they would not impact general operations as these dollars would otherwise flow into Unallocated Reserves as stated in the general Budget Allocation Model. The use of these resources for one-time/capital expenditures is consistent with the current philosophy regarding the use of reserves.

- In subsequent years (FY13 and beyond) a portion of the budgeted revenue in the specific revenue sources identified (lottery, interest and enrollment fee admin fee) be moved from the general Budget Allocation Model to the Infrastructure Funding Model each year based on the plan attached.

These dollars would be moved in their entirety within eight years of gradual re-alignment. The movement would be a part of the annual budget assumptions, and the gradual transition plan could therefore be modified at any point to slow down or accelerate the results.

As part of DCAS's annual review, the elements of the Infrastructure Funding Model will be reviewed in a parallel process similar to that of the Allocation Model review.

Conclusion

For the past several years, the District has faced structural deficits with financing several critical elements which are central to the core mission of the colleges and the District. These internal circumstances have been acknowledged by the District over the past several years but not addressed.

Although the proposed Model will not fully address all funding needs identified, it is intended to establish a foundational allocation process which will provide the colleges a dedicated, ongoing source of funds to use in mitigating these operating concerns and maintain quality facilities and equipment in order to provide quality instructional programs.

Even though this will eliminate one of the sources of increase to District reserves (unbudgeted and under-budgeted revenue), the call on reserves would be somewhat

mitigated by providing resources for the current structural deficits, and growth revenue in the first year of receipt would continue to be directed to reserves as an in-flow.

Great care has been exercised in developing the Model to ensure the colleges' General Fund operating budgets will be buffered from any long-term impact and that the instructional and student service needs of the District will be preserved and adequately funded to meet the needs of our students.

Specific Considerations and Details

After months of data review, discussions, and model simulations, DCAS has agreed on the following recommendations:

Categories to be addressed for Infrastructure Funding Model:

- Scheduled Maintenance and Capital Furniture (including classroom, faculty and administration)
- Library Materials and Databases
- Instructional and Non-instructional Equipment
- Technology Refresh and Replacement (hardware and software)
- Other – To be restricted to one-time and not on-going expenditures, such as new program/process start-up costs, staff innovation, and program specific accreditation (e.g., nursing, dental hygiene, child development)

Next, DCAS examined the various revenue sources in the General Budget Allocation Model to determine which were the best candidates for reallocation. Once the specific sources were identified, they focused on a phase-in process to minimize the impact on the colleges' ongoing operating budgets. The result of these discussions is as follows:

- Lottery Proceeds
- Interest Income
- Enrollment Fee Admin Fee
- Miscellaneous - other

Proposed Transition/Phase-in (Triggers) for Reallocation of Identified Resources

To minimize the reallocation impact of the above identified resources from the General Allocation Model on the colleges' budgets, DCAS recommends the following implementation phasing:

- Year 1 (FY 2012-13)
 - Any net increase in General Fund Unrestricted lottery, interest, or enrollment fee local share revenue above budget for FY12.
 - Any unbudgeted General Fund revenue (with the exception of growth and COLA) received in FY12, such as state mandated cost reimbursement for collective bargaining.
 - Any net savings between budget and actual expenses from District Wide Services and Utilities for FY12

It was the consensus of DCAS that these items should be re-directed as resources for the Infrastructure Funding Model as opposed to flowing to Unallocated Reserves as is stated in the current General Allocation Model, and that the use of these resources for one-time/capital expenditures is consistent with the current philosophy regarding the use of reserves.

- Year 2 (FY 2013-14)
 - Those items included in Year 1 (2012-13) reallocation, and
 - Enrollment fee local revenue (approx \$326K), and
 - Interest income over two years (50%)
- Year 3 (FY 2014-15)
 - Those items included in Year 2 (2013-14) reallocation, and
 - Reallocate remaining 50% of interest income
 - Lottery Income over five years (20%)
 - If growth funding is received, reallocate an additional 25% of lottery income balance
- Years 4-8
 - Those items included in the prior year
 - Reallocate an additional 20% of lottery income each year until fully reallocated
 - If growth funding is received, reallocate an additional 25% of the lottery income balance. (The goal of reallocation will be met sooner than year 8 if growth revenue is received.)

This implementation strategy should provide the colleges adequate time to restructure their General Fund operating budgets and properly transfer their structural deficit expenditures to the new allocation base and adjust their ongoing operating expenses within the General Fund.

As part of DCAS's annual review, the implementation strategies of the Infrastructure Funding Model will be reviewed in a parallel process similar to that of the Allocation Model review.

Basis for Allocation of Resources to Identified Categories:

<u>Category</u>	<u>Allocation Basis</u>
Scheduled Maintenance and Capital Furniture	Assignable Square Footage
Library Materials and Databases	FTES
Instructional and Non-instructional Equipment	FTES
Technology Refresh and Replacement	Number of Computers
Other	Equal shares (1/3, 1/3, 1/3)

Funding Rate Proposed for Each Category:

<u>Category</u>	<u>Funding Rate</u>
Scheduled Maintenance and Capital Furniture	\$1.60/square foot
Library Materials and Databases	\$10.00/FTES
Instructional and Non-instructional Equipment	\$30.00/FTES
Technology Refresh and Replacement	\$150.00/computer
Other	\$150,000/college

The rates were determined based on the most recent experience/estimate of need, previous funding levels used by state, etc. It will be necessary that as a part of the annual review by DCAS the categories and goal funding rates be assessed for appropriateness.

- **Other**

DCAS finally recommends the following for implementation of the Infrastructure Funding Model:

- All resources reallocated will be budgeted and accounted for in a new fund separate from the General Fund – Unrestricted (111).
- The colleges will be allowed to carry over all unspent balances in these accounts from year to year in order to meet fluctuating needs.

- In the first two years of implementation, the colleges will not be required to spend their allocation in accordance with the specific categories which generated the allocations, but will be restricted to use these funds for only expenses associated with allocation categories in total. For example, for the first two years, a college may elect to fully expend its entire annual allocation for scheduled maintenance even though the allocation was derived from all infrastructure funding categories.
- As with the General Fund, the colleges will have control over the internal budgeting of these funds as long as they are within the allocation categories. These budgets will be presented to the Board for approval as part of the overall budget development process.
- During years when the total dollar allocation to the Infrastructure Fund is insufficient to fully fund the Model, based on the then approved funding rates, the funding rates for all categories will be adjusted downward by a coefficient equal to the total of the funds available divided by the calculated full funding amount. For example, if the calculated full funding amount, based upon funding rates and allocation bases is \$4 million and the available funds based upon the allocation parameter is only \$3 million, then the funding rate for all categories will be computed at 75% (3 million/4 million) of their then approved rate.
- As the District Office does not participate in the Infrastructure Funding Model allocation, as revenue is removed from the General Budget Allocation Model, the DAC percentage of revenue in that model will be adjusted to hold them harmless.
- DCAS has agreed, as with the General Fund Budget Allocation Model, to oversee the Infrastructure Funding Model and review it annually. Any proposed revisions to the Model will be presented to the Board for review and approval.

VENTURA COUNTY COMMUNITY COLLEGE DISTRICT
DISTRICTWIDE RESOURCE BUDGET ALLOCATION MODEL
GENERAL FUND – UNRESTRICTED BUDGET

Fiscal Year 2012-13

Background

Effective in fiscal year 2003-04, the District set aside the then-existing budget allocation model, which had been used to distribute district resources for the prior six years.

The model was primarily revenue-driven while providing for college base allocations and other fixed costs which did not necessarily equate directly to FTES generation. As such, the model relied both on revenue (FTES) and expenditure elements (dual characteristics) to serve as the mechanisms to produce the colleges and district level budget allocations. The model was, however, primarily FTES driven, with no cap placed on the funding of growth at the colleges, although the district as a whole had a funding cap. As the colleges evolved over time, the shift of resources favored the college(s) growing most rapidly and disadvantaged the college(s) growing more slowly, and the movement happened in an uncontrolled fashion. As a result, the model had been adjusted several times during its six-year period, and was believed to no longer meet the needs of the district and its colleges.

In 2003-04 when we set the model aside we distributed resources using the fiscal year 2002-03 allocation as a base, increasing or decreasing it proportionately each subsequent year based on changes in additional available resources from that point forward. That process continued over the next four years. Although we had a method to distribute funds, we did not have an agreed-upon budget allocation model. Distribution of new resources did not consider how the colleges had evolved since 2003-04. That method of allocating funds did not reflect how we received our funding from the state, the uniqueness of our colleges, nor the priorities of the district. In addition, the lack of an agreed-upon allocation model had been cited in the accreditation reports and would have been a major issue if not resolved.

New Model

During fiscal year 2006-07 the District Council on Administrative Services (DCAS) and the Cabinet worked simultaneously toward identifying the features of a model that would reflect the unique characteristics of each college, while

recognizing how we are funded by the state, and be perceived as more equitable than the then existing arrangement.

The allocation model was adopted for use in the 2007-08 fiscal year.

Elements of the Model

The district recognized the value in developing a model with dual characteristics, i.e. one that includes elements based on both revenue (FTES), as well as expenditures. The model considers how the colleges have evolved, and is responsive to changes that will occur in the future. The model also considers how we are funded from the state. The model is objective based, formula-driven, readily understood, reasonably applied, flexible and responsive, widely communicated, adequately documented, and perceived as equitable.

The adopted budget allocation model addresses the distribution of resources, and is not prescriptive in how funds are to be spent at the various locations (colleges and district office). The district acknowledges differences between its colleges and recognizes the colleges' needs to direct their resources based on their own plans and objectives in meeting the needs of their diverse populations and constituencies. The colleges have separate and specific budget development processes unique to each college, reflecting their organizational culture and priorities. It is at this level that the budget must be tied to each college's strategic plans and address accreditation requirements. DCAS will consider processes/templates to be used for this accreditation purpose.

Revenue

The budget allocation model is designed for the distribution of general fund-unrestricted revenue only. Other sources of funding are allocated either by the state directly to a specific college or the district has agreed on a separate allocation method for those funds.

All general fund – unrestricted revenue will be distributed through the model, including, but not limited to, state apportionment for FTES, local revenues such as lottery, non-resident tuition, interest income, and miscellaneous revenue traditionally accounted for in the general fund – unrestricted, unless agreed to be distributed using a separate allocation model.

Districtwide Support

The district recognizes that it is fiscally prudent to provide some services centrally through the operation of a district office (District Administrative Center –

DAC). These services should primarily represent those functions that can be most effectively and efficiently administered in a centralized fashion.

In addition, the allocation model will continue to provide a pool of resources to support expenditures required to meet general districtwide obligations such as property and liability insurance, legal expenses, governing board expenses, financial and compliance audits, central technology hardware, software and management services, and other activities which support the district as a whole and cannot be conveniently or economically assigned to the other operating locations through a cost center referred to as Districtwide Services.

The district will continue to account for utilities in a central location, so as to mitigate the significant differences in utilization due to building size, construction, age, and climatic conditions affected by college locations.

College Allocations

In an attempt to develop a model that would be accepted as fair and equitable, areas of differences or unique characteristics between the colleges, as well as similarities, were identified. A model that considers and reflects these differences is consistent with the objective of equitability.

The differences, unique characteristics, and similarities identified include, but are not limited to, areas such as:

- Facility constraints/classroom capacity on each campus
How many rooms hold 25, 35, 100, etc. students?
How will capacity change over the new few years?
- Program Mix - mix of general education and vocational programs
Does each college have the same proportion of vocational/career tech to general education classes?
Does the difference in program costs impact the college's decision on what programs to maintain or develop?
- Students' level of educational preparedness
Does each college have the same proportion of students who are prepared to take college-level classes? Are needs for basic skills classes the same? (Some of the additional requirements/services of these students are to be met through special funding, such as categorical, not necessarily general fund – unrestricted dollars distributed through this model)
- Does each college have the same proportion of senior faculty (salary schedule placement)?

- How do fulltime / part time ratios of faculty compare?
- Are the contractual obligations, such as reassigned time and leaves, disproportionately distributed?
- What are the similarities/differences in core services?
- How does the size of each student body compare? (FTES)

It was imperative that each of these elements were considered in one or more of the components of the budget allocation model/calculation to ensure an equitable allocation process.

Year- end Balances

The allocation model recognizes the incentive in allowing budget locations to maintain their unexpended funds for future needs.

MECHANISM OF THE MODEL

Revenue

All projected general fund – unrestricted revenue will be included, unless identified to be distributed in a different fashion (such as to fund structural deficits). Restoration and growth revenue will not be included until the year after it is earned.

Districtwide Support

Districtwide Services (DWS)

The definition of DWS will be reviewed regularly. Components and specific line item budgets will be considered each year by DCAS for inclusion in this budget category or movement to another budget location.

Utilities

The budget for utilities will be based on historical and projected rates and usage, and presented to DCAS for review and concurrence.

District Administrative Center (DAC)

The District Administrative Center will receive a percentage (initially 5.8%) of projected revenue. Each year, after review, if it is determined that specific budget items are to be reassigned between DWS and DAC or the colleges and DAC, the percentage of revenue will change accordingly, maintaining the same effective rate. (Effective with the FY12 Tentative Budget, costs had been redirected and the DAC's proportionate percentage was 6.64%.)

College Allocations

Class Schedule Delivery Allocation

Using each college's productivity factor (as defined below) and FTES from the current year, we derive a Full Time Equivalent Faculty (FTEF) number for the budget year. The college receives an allocation for the actual cost (salary and benefits) for the full time classroom faculty currently employed. This allocation is adjusted to reflect non-teaching assignment for these faculty, such as those on leave or reassigned time, and planned additional full-time faculty for the budget year. The balance of the allocation is distributed based on the average cost of a non-contractual FTEF.

The productivity factor (which is the college's average weekly student contact hours (WSCH) taught by a full time faculty equivalent (FTEF)) reflects, among other things, differences in class sizes (and subsequently costs) due to facility limitations, program mix (general education vs CTE), and educational preparedness of the student population of each college. Effective FY10, the model was changed to utilize an average of a budget year productivity factor (i.e. the goal) and the prior year actual productivity factor.

The productivity goal for a budget year is independently set for each college, and is based upon historical data and takes into consideration a college's unique circumstances and the economic environment. Because a portion of funding to a college is based on that goal, it is essential that the productivity goal-setting process be thoughtful and have integrity. It is therefore recommended that each college's goal-setting team, which will be determined by each college and may include not only the college president, but also the instructional and business vice presidents as well as the academic senate president, establish a process to project a realistic and attainable goal. The college president meets with the chancellor to discuss the environment and challenges, and set the goal.

Base Allocation (Fixed Allocation)

Each college receives an equal dollar amount that recognizes the fixed expenses/core services associated with operating a college, regardless of the size of its enrollment.

This base allocation was established at 15% of revenue available for distribution, divided equally among the colleges. This recognizes economies of scale and provides a "small college" factor to the model.

FTES Allocation

The remainder of the available revenue is allocated to the colleges proportionate to their FTES (%) actually earned in the prior year, and recognizes how the District receives the bulk of its revenue through SB361.

Colleges are funded proportionate to their FTES (%) for their actual growth, up to the maximum percentage that the District was funded. Each college may then carry unfunded FTES (as does the District as a whole), and be entitled to use that excess if and when the District does. By using a blended average in the productivity factor as recommended above, colleges are not penalized for “overgrowth” if attained through efficiencies, i.e. because they experience less costs.

Transition/Implementation Funding

As implementation of the new allocation model shifted resources, the district recognized the need to provide for stability during the transition for colleges to gradually move towards full implementation of the new model.

During the implementation year, FY08, \$2 million of total revenue was allocated - 50% each to Oxnard and Ventura colleges. In FY09, \$1 million of available resources was available to be allocated - 50% each to Oxnard and Ventura colleges. Once applied, the amount of transition/implementation funding was assessed to ensure the colleges were able to transition without undue financial hardship.

Carry-over

In addition to the allocation derived through the mechanism of the model, the colleges and district office are allowed to carry-over any unexpended funds as of June 30 into the new budget year, up to a maximum of 1% of their respective prior year budgets. (There was no maximum for carryover from June 30, 2007 to July 1, 2007). These amounts are placed in a designated reserve as of June 30, to be distributed for expenditures as of July 1 of the budget year. (This percentage has been increased to 2% in years where fiscal difficulties were anticipated for the following year.)

Updates

Since the adoption of this new model for 2007-08 fiscal year, and in accordance with the commitment to the Board to regularly review the model components to

ensure a more sustainable model, the District Council of Administrative Services (DCAS) reviews the model annually. During the first part of 2009, they recommended modifications to the Class Schedule Delivery Allocation and the FTES Allocation segments of the model. The Board of Trustees approved the recommended changes at its March 2009 Meeting.

In 2010-11 DCAS developed a plan to address the district's capital structural deficits and recommended that specific revenues (lottery, interest income and administration fee revenue) be removed over time from the general budget allocation model and allocated in a different method.

In Summary

The District resource budget allocation model is complex enough to reflect the unique characteristics of our colleges and the needs of a multi-college district while recognizing how the district is funded from the state, yet simple enough to be readily understood, easily maintained, and transparent. Finally, it is driven by factors which command accountability, predictability, and equity.

Overall, the model addresses the Basic Principles for a budget allocation model previously adopted by the board. It utilizes formulas and variables that have been meaningfully studied, readily defined, easily measured, and consistently reported. As with this budget, no model will ever be perfect and it is doubtful that the district will ever achieve complete consensus as to how its resources should be distributed; however the model as proposed, adopted, and modified comes as close to that consensus as we can reasonably expect. DCAS and Cabinet independently reviewed the model prior to recommendation to the Board and concurred that it meets the budget principles established by the board and is "fair and equitable" for all colleges and the district operational units. Annually, the model is reviewed by DCAS and Cabinet and revised consistent with the requirements identified and agreed upon at that time. Any proposed revisions to the model are presented to the board for approval with the budget assumptions document.

BUDGET ALLOCATION BASIC PRINCIPLES

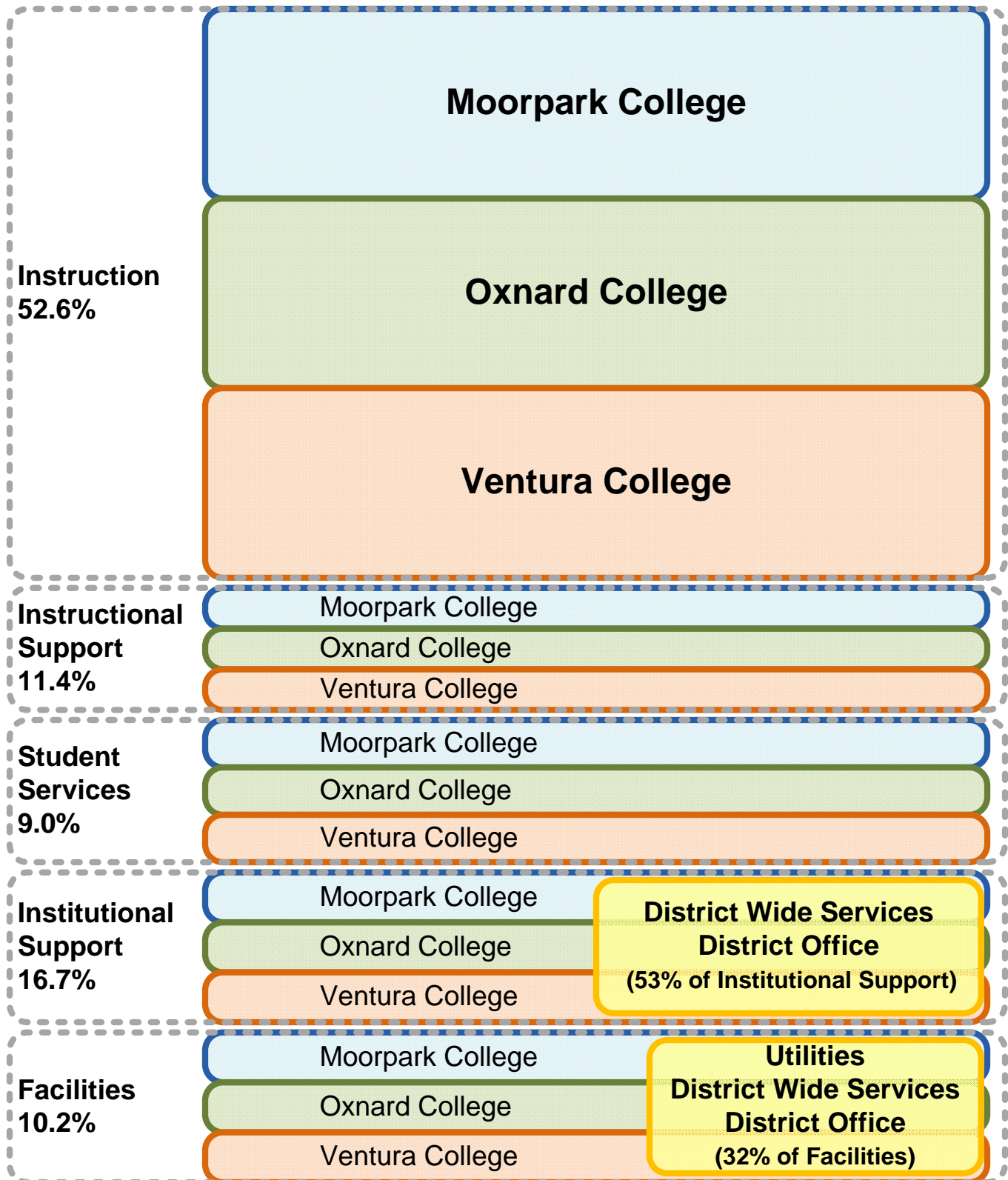
The primary purpose of the allocation model is to support the mission of the District which embraces the intent of the Master Plan for Higher Education and the language of AB 1725 and supports the following initiatives which highlight the role of the California Community Colleges in meeting the intent of that mission:

- Implement the guaranteed transfer provisions of the revised Master Plan;
- Implement the general education transfer curriculum;
- Reaffirm its strong support of vocational education, which is equal in importance to transfer education; and,
- Seek methods to accommodate the growing demand for student access, especially for underrepresented students.

The allocation model should:

1. Recognize that the District is, and for the foreseeable future will continue to be, an organization with three comprehensive colleges, each having unique qualities and programs.
2. Recognize that it is fiscally prudent to provide some services centrally through the operation of a district office. These services should primarily represent those functions that can be most effectively and efficiently administered in a centralized fashion.
3. Encourage flexibility and autonomy in decision making at the district office and colleges, incorporating the philosophy of shared governance on budget development and management.
4. Be simple to operate and easy to understand. The formulas that drive the model should be readily defined, easily produced and maintained, and provide accurate measurements and comparisons.
5. Move, over a period of time, toward a process consistent with the funding principles by which the District receives its resources.
6. Allow a period of transition and provide for stabilization methods to mitigate significant resource reallocations during any given budget year.
7. Provide for maintenance of a stated level of general district reserves.
8. Be incentive-based, for the District Office and colleges to benefit from, and be responsible for, college-based revenue-producing activities and site ending balances.
9. Allow colleges to initiate, implement, and be responsible for new program initiatives.
10. Provide clear and ongoing accountability throughout the organization.
11. Provide for periodic review and modification in response to ongoing changes within the organization.

VCCCD Proportional Expenses



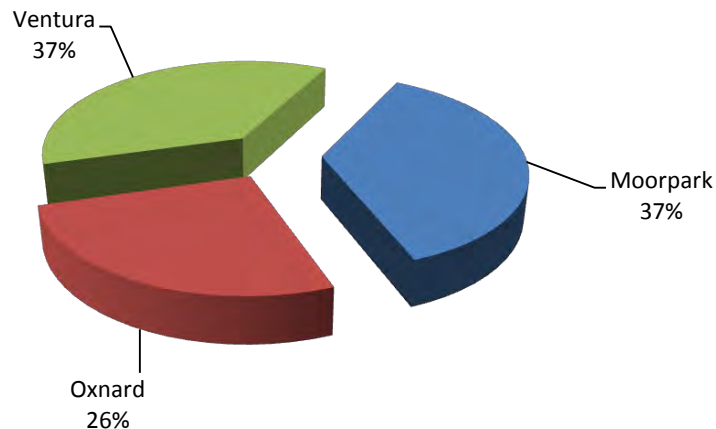
VENTURA COUNTY COMMUNITY COLLEGE DISTRICT
2012-2013 ADOPTION BUDGET
GENERAL FUND- UNRESTRICTED (DESIGNATED) INFRASTRUCTURE

FUND 113 BY MAJOR OBJECT

	2011-12 ADOPTION BUDGET	2011-12 ACTUAL EXPENDITURES	2012-13 ADOPTION BUDGET
8000 REVENUES	-	-	-
1000 FACULTY SALARIES	-	-	-
2000 CLASSIFIED SALARIES	-	-	-
3000 EMPLOYEE BENEFITS	-	-	-
SALARY & BENEFIT SUBTOTAL	-	-	-
4000 SUPPLIES & MATERIALS	-	-	240,649
5000 OTHER OPERATING EXP	-	-	663,810
6000 CAPITAL OUTLAY	-	-	280,504
7000 TRANSFERS (IN)/OUT	-	(1,184,963) *	-
TOTAL BUDGETED EXPENDITURES	-	(1,184,963)	1,184,963

Net Change Fund Balance	(1,184,963)
Beginning Fund Balance	1,184,963
Ending Fund Balance	-

Expenditure Budget by Site



* First year of this fund. As of June 30, 2012 dollars were transferred based on infrastructure funding model. see Appendix A-3 for detail.

VENTURA COUNTY COMMUNITY COLLEGE DISTRICT
2012-2013 ADOPTION BUDGET
GENERAL FUND- UNRESTRICTED DESIGNATED-INFRASTRUCTURE
FUND 113 BY PROGRAM

ORG. #	LOC	PROGRAM	BALANCE FORWARD	REVENUE	TRANSFER/ EXPENSE	ENDING BALANCE
15220	MC	Sch Maint & Capital Furniture	183,781	-	183,781	-
15221	MC	Library Materials & Databases	34,525	-	34,525	-
15222	MC	Inst & Non Inst Equip	103,575	-	103,575	-
15223	MC	Tech Hardware & Software	68,761	-	68,761	-
15224	MC	Other	44,737	-	44,737	-
25220	OC	Sch Maint & Capital Furniture	155,859	-	155,859	-
25221	OC	Library Materials & Databases	14,047	-	14,047	-
25222	OC	Inst & Non Inst Equip	42,142	-	42,142	-
25223	OC	Tech Hardware & Software	54,579	-	54,579	-
25224	OC	Other	44,737	-	44,737	-
35220	VC	Sch Maint & Capital Furniture	189,959	-	189,959	-
35221	VC	Library Materials & Databases	31,644	-	31,644	-
35222	VC	Inst & Non Inst Equip	94,932	-	94,932	-
35223	VC	Tech Hardware & Software	76,948	-	76,948	-
35224	VC	Other	44,737	-	44,737	-
TOTAL GF- UNREST DESIGNATED INFRASTRUCTURE			1,184,963	-	1,184,963	-