Coast Community College District
ADMINISTRATIVE PROCEDURE
Chapter 6
Business and Fiscal Affairs

AP 6200 BUDGET PREPARATION

References:

Education Code Section 70902(b)(5);
Title 5 Sections 58300 et seq.;
Accreditation Standard III.D
Board Policies 6200, 6300, 6305

I. Background:

Budget planning supports institutional goals and is linked to other institutional planning efforts. The budget is a financial plan for the operation of the District for the fiscal year, developed in accordance with Board-adopted educational goals and objectives and fiscal standards.

The Chancellor shall have prepared and shall submit to the Board of Trustees by no later than June a tentative budget for the ensuing fiscal year. Development of the budget shall begin early in the calendar year in order to provide ample opportunities for the Board, staff and constituencies to consider all relevant data, parameters, and issues in accordance with state law, Board Policies and Administrative Regulations; prior to Board adoption.

In accordance with Title 5 regulations, the budget shall include estimated income and proposed expenditures in sufficient detail to permit comparisons between the proposed budget and the actual revenues and expenses in the current year.

The tentative budget shall be presented no later than July 1 [Title 5, Section 58305(a)], and the final budget no later than September 15 [Title 5, Section 58305(c)]. A public hearing on the final budget shall be held on or before September 15 [Title 5, Section 58301].

II. Budget Preparation

To meet the regulatory requirements outlined above, and maintain the fiscal stability of the District, the budget preparation process shall:

1. Provide an annual budget that shall be prepared in conformance with the California Community College Budget and Accounting Manual, and in conformance with provisions of the Education Code.
2. Provide for responsible stewardship of available resources.
3. Provide for safeguarding and managing District assets to ensure ongoing effective operations; maintenance of adequate cash reserves; implementation and maintenance of effective internal controls; determination of sources of revenues prior to making short-term and long-term commitments; establishment of a plan for the repair and replacement of equipment and facilities.
4. Provide that appropriate administrators keep the Board current on the fiscal condition of the District as an integral part of policy and decision-making.
5. Provide for development and communication of fiscal policies, objectives and constraints to the board, staff and students.
6. Provide for appropriate fiscal policies and procedures and adequate controls to ensure that established fiscal objectives are met.
7. Provide a process to evaluate significant changes in the fiscal environment and make necessary, timely, financial and educational adjustments.
8. Provide both short term and long term goals and objectives, and broad based input coordinated with District educational planning.

The following parameters shall serve to guide budget ~~addresses~~ development and management:

1. Assumptions upon which the budget is based are presented to the Board for review.
2. Total amounts budgeted as the proposed expenditure for each major classification of expenditures shall be the maximum expended for that classification for the school year, except as specifically authorized by the Board.
3. Transfers made from the reserve or contingencies to any expenditure classification requires written resolution of the Board, and must be approved by a two-thirds vote of the members of the Board.
4. Transfers made between expenditure classifications requires written resolution of the Board, and must be approved by a super-majority of the members of the Board.
5. Additional funds, not recognized in the Adopted Budget, are available for appropriation only by resolution of the Board setting forth the need according to major classification.
6. Additional funding received by the District after the budget is adopted, not directly attributable to an individual college, shall be distributed through the allocation model as delineated in the above revenue parameters.

To achieve and maintain fiscal stability and to dedicate resources to meet the objectives of strategic planning, the District will follow a plan that requires a balanced budget on a year-to-year basis. To achieve each of the standards of the plan, each year the District will develop a budget that results in steady progress toward achieving each of the requirements of these Fiscal Standards and which reflects the Board's annual budget priorities to the extent possible. While the development of the annual budget occurs through the shared governance process, the Chancellor, through their Chief Business Officer, is responsible for submitting a budget to the Board for approval.

As required by law, the Board shall be presented with a quarterly report showing the financial and budgetary conditions of the District. Annual financial reports will be produced in accordance with Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board (GASB) and the California Community College's Budget and Accounting Manual. The annual financial statements will reflect the business-type activities consistent with GASB.
An internal control structure, that includes documentation of procedures, will be in place to ensure reasonable accuracy of accounting information, to safeguard assets from loss and to ensure operating policies and procedures are being followed.

As required by the Budget and Accounting Manual, expenditures shall be recognized in the accounting period in which the liability is incurred, and shall be limited to the amount budgeted for each major classification of accounts and to the total amount of the budget for each fund.

III. Operating Budget Goals & Standards

These goals & standards are informed by the 2014-17 District-wide Strategic Plan, Goal Area 2, adopted on November 19, 2014. The plan and these standards may be amended from time to time.

1. Achieve and maintain a structurally balanced annual budget
    a. In the unrestricted general fund (UGF), on-going revenue should be 110% of on-going expenses.
    b. The percentage of UGF salaries and benefits should not exceed 85% of the total UGF expenditures.
2. Provide an appropriate number of full-time faculty.
   Coast shall exceed the state required Faculty Obligation number (FON) by no less than two percent, as specified in the District-wide Strategic Plan 2014-17 and subsequently in the Faculty Hiring Plan, initially adopted by the Board of Trustees on December 10, 2014, and as may be amended from time to time.

   Faculty Positions: The goal is to have 75 percent of credit units taught by full time faculty as stated in AB 1725.

3. **Classified Positions:**
    a. Classified employee positions are to be evaluated on a year-to-year basis to determine where additional employees are needed to support student

success, the instructional and service programs or to enhance the working and learning environment.

b. Support staffing levels are to be considered when evaluating changes to programs.

4. **Maintenance Expenditures:**

    a. To the extent funds are available, an allocation will be made each year to preserve and enhance the District's investment in its facilities. These expenditures will be used to address recurring and on-going maintenance needs.
    b. Align facilities (capacity) with enrollment load. The goal is 100% where capacity and load are balanced.

5. **Budgeting for Unfilled Positions:** The District will conservatively budget for unfilled positions.

6. **Technology**
    a. Leverage technology to facilitate student learning, operational efficiency and effectiveness.
    b. The District-wide Information Technology Plan shall guide technology expenditures.

7. **Alternate Sources of Revenue**
    a. Maximize revenue through alternative/entrepreneurial activities.

Revenue Standards

State funded growth revenue is actively pursued. Growth revenue is viewed as an essential element in obtaining the resources necessary to meet goals of providing and increasing community access.

Colleges, as appropriate, will provide community services and contract education to meet the needs of the community and to maximize non-State funding.

Community services and contract education courses shall, in general, be self-sufficient or revenue producing.

Categorical and grant revenue provided by State and local agencies for specific support purposes are to be pursued by each College and the District when these services are consistent with the objectives and are financially beneficial to the District.

One-time revenues will be used for one-time expenditures or to temporarily augment department budgets. One-time expenditures will not be used to establish on-going and recurring costs.

IV. SB 361 ALLOCATION MODEL

Effective July 2014 the District adopted the SB 361 allocation model as the basis for its budgeting system. The SB 361 model is currently the apportionment funding mechanism utilized by the State Chancellor's Office to allocate resources to each of the 72 California Community College Districts. Signed by the Governor on September 9, 2006 with an effective date of October 1, 2006, this model implemented a new formula to replace the State Program Based Funding Formula. The new formula includes an annual basic allocation and uses marginal funding rates for FTES to allocate apportionment funding. The Basic allocation component of the model takes economies of scale and size of approved colleges and centers into consideration. Implementation of this revenue based approach at the local level involves allocating revenue to the colleges in the same manner as received by the District. The SB 361 model provides for more autonomous decision making at the college level and uses the college planning process as the primary source for determining shared governance recommendations.

V. UNRESTRICTED GENERAL FUND

The unrestricted general fund comprises the vast majority of the revenue and expenditures of the District. The revenue for the unrestricted general fund is mostly from apportionment (state funding, property taxes, and enrollment fees) but also includes revenue from the state lottery, nonresident tuition, student fees, and local unrestricted revenue sources. Expenses incurred to the unrestricted general fund include personnel and the supplies, materials, and equipment needed for operations. All funds discussed in this section are accounted for in the District's Unrestricted General Fund.

A. BUDGET DEVELOPMENT

Budget development is informed internally by productivity measures, student success, collective bargaining, and program review, and externally by state statutes, regulations, and inputs from the California Community Colleges Chancellor's Office.

1. Beginning Balance

A fund's current year beginning balance is defined as the ending fund balance from the prior year. The balance for the Unrestricted General Fund is delineated into the following three categories:

a. Board designated reserves per Board Policy 6200 and Administrative Procedure 6305 for all locations, and other funds upon which the Board has, by official action, designated a specific District-wide or location-specific purpose.
b. College and District Office discretionary reserves are unspent allocations from the prior year. The amount is calculated as the location's prior year beginning balance plus prior year actual revenue less prior year actual operating expenditures.
c. Unreserved/undesignated fund balance.

Adjustments to Beginning Balance: Adjustments to the current year's beginning balance may occur throughout the budget cycle as the result of the prior year's closing activities. These may include, but are not limited to: audit adjustments, grant disallowances, bad debt write offs, and accounts receivable and liability liquidations. Any increase or decrease in the beginning balance occurring after budget adoption will be identified by source and the adjustment will be applied to the appropriate reserve category listed above.

2. Enrollment Projections

The initial step in budget development is the projection of resident and non-resident full time equivalent student (FTES) enrollment. FTES projections are based on an analysis of enrollment history, program plans, projected state funding, etc. The College Presidents provide information, oversight, and review of this process for their respective colleges. The budget calendar is prepared annually.

NOTE: For District apportionment purposes outlined below, FTES refers to resident FTES only unless otherwise stated.

FTES growth and FTES targets will be determined on the percentage of base college-funded FTES to total District-funded FTES that each college is charged to maintain.

a. For purposes of Tentative budget development for the ensuing year, the 2nd period CCFS 320 Enrollment Report due to the Chancellor's Office on April 15 shall be used as a basis for projecting state appropriations for the Budget Year.
b. The Adopted Budget will use the prior year's actual FTES as

reported on the Annual CCFS 320 Enrollment Report submitted to the State Chancellor's Office in July.

Due to the timing, there will be no Budget Year growth reflected in the District Tentative Budget which must be adopted prior to June 30 each year. To the extent these growth revenues are earned and become part of the base budget, these revenues will be allocated retroactively in the year following, subject to the District growth cap and any other funding limitations and/or uncertainty. If there are to be other considerations for determining FTES growth targets, those will be established by the Chancellor in consultation with the Cabinet.

The District, in collaboration with the Colleges, will endeavor to identify one-time resources to front-load the cost of earning growth.

The colleges' apportionment revenue allocations will be determined by FTES enrollment targets that have been approved by the Chancellor's Cabinet. The proportional FTES targets shall serve as the basis for allocation of apportionment revenues to the colleges. The District will continue to use the historical percentage distribution framework for purposes of the allocation model as follows:

- Orange Coast 52.11%
- Golden West 30.51%
- Coastline 17.38%

In a year with no funded growth, if a college exceeds its FTES enrollment target, it will assume responsibility for absorbing any expense incurred without receiving an additional revenue allocation.

If for any other reason(s) at the end of the fiscal year the District as a whole does not meet its maximum funded FTES base, a District-wide strategy will be established by the Chancellor in consultation with the Chancellor's Cabinet. If the District reports FTES below funded base, Budget Stability (T-5 § 58776) provides a one-year hold-harmless for the District. Districts shall receive stability funding only in the initial year of decline in FTES in an amount equaling the revenue loss associated with the FTES reduction for that year. Declines in college FTES that result in a reduction of calculated basic allocation will not cause a reduction in basic allocation base revenue until the third year after the year of the FTES decline, and the basic allocation will not be reduced if the FTES is restored back to or above the pre-decline base.

Districts shall be entitled to restore any reductions in apportionment revenue due to declines in FTES during the three years following the initial year of decline in credit, noncredit, or career development and college preparation FTES if there is a subsequent increase in FTES (T-5 § 58777).

3. Operating Resource Allocation Process

The computation of projected operating revenue is prepared by the Vice Chancellor of Finance and Administrative Services. This is primarily the conversion of projected enrollments to dollar amounts derived from the state (the District's base revenue plus cost of living adjustments, plus growth or less deficit/workload reductions), and estimates of other operating revenue sources based on past experience and/or anticipated changes.

Separate projections are made for restricted funds (which must be used for specific purposes) and the unrestricted fund. Major emphasis of the SB 361 model is on the unrestricted fund. Revenue projections rely upon many assumptions about the future which guide the estimates of allocable revenue for the District. The possibility of changing economic and political conditions and the necessary tentativeness of the revenue total must be accepted and understood. Projected revenue should not be viewed as an absolute.

Another important function of revenue analysis is to provide a reasonable estimate of the change in revenue for the budget year compared to the current year. From this difference, any program changes with budget impact or improvements in programs may be considered for funding, in addition to the necessity of funding incremental and inflationary increases in existing programs.

If the forecast is for diminished revenue, such recommendations involving budgetary and expenditure reductions will be discussed in Chancellor's Cabinet.

4. Allocation of Projected Revenue

The combination of state general fund revenue, local property taxes and enrollment fee revenue reflects the majority of the District unrestricted general fund, and is a function of funded FTES. In addition to the state and local resources detailed below, each college receives a Basic Allocation based upon college size using state funded rates. Further, revenue from non-resident tuition, unrestricted state lottery and other specific state allocations are subject to distribution through the revenue allocation model.

The District utilizes the SB 361 funding formula to distribute state general apportionment and other FTES-driven revenue to the colleges. Total allocations for college operations are determined using the following six-step process:

STEP 1	Determine District base apportionment revenue for the budget year to include the Basic Allocation, funded COLA and any prior year growth/decline.
STEP 2	Apportionment revenue distributed to the colleges based upon FTES targets using historical FTES proportions as noted in Section V.A.2
STEP 3	Project "other state revenue" based upon prior year actuals unrestricted Lottery, Enrollment Fee Administration and Part Time Faculty Parity and apportion using percentages in STEP 2.
STEP 4	Project "District-wide Local Revenue" based upon prior year actuals which will be distributed thru the allocation model and distribute using percentages in STEP 2.
STEP 5	The Total from Steps 1 thru 4 represents the total dollars available for distribution thru the model and the proportional amounts distributed to the colleges based upon FTES percentages as noted in STEP 2.
STEP 6	In consultation with Chancellor's Cabinet, deduct assessments represented by costs to provide District Services and to fund District-wide expense.
STEP 7	Result of STEP 6 is the net allocation amounts to each college .
STEP 8	Add budget year projection based upon prior year actuals for dedicated revenue attributable to each college.
STEP 9	Net allocation through the allocation model plus the dedicated revenue will result in the dollars available to each college.
STEP 10	A retrospective review of the budget which shall include a review of the Allocation Model.

Exhibit A to this procedure demonstrates, in summary form, the implementation of this allocation model. The following information details each of the steps.

STEP 1 <u>Computation of Apportionment Revenue</u>

The base revenues for the District shall be the sum of the following allocations:

a. **Annual Basic Allocation:** The annual basic allocation is prescribed by the state SB 361 funding formula and is based on each college's size (resident FTES). An additional basic allocation is granted for state-approved centers. The annual basic allocation may be adjusted each year by a state-wide funded cost of living adjustment (COLA).

b. **FTES Base Revenue:** FTES base revenues for credit, non-credit, and Career Development and College Preparation (CDCP) non-credit FTES are generally equal to the state-prescribed base rates multiplied by its number of funded FTES from the prior fiscal year in each category. These allocations may be adjusted each year by the state.

These annual allocation amounts for the current year are provided in the State Chancellor's Office First Principal Apportionment Report, Schedule C, released each February. This First Principal Apportionment report information shall be used to project an initial estimate of revenue for the budget year. To project basic allocation revenue for the new budget year during the budget development process, these amounts are adjusted for funding changes anticipated for the new budget year, including any state-funded cost of living adjustment (COLA) or anticipated deficit/workload adjustments.

i. **<u>Allocation of Growth/Decline Revenue</u>**

Growth: the colleges will be funded retroactively, for growth based upon the historical proportional FTES distribution and subject to the District funded growth cap:

In all cases, when District FTES growth is below the state-prescribed growth cap (FTES growth for which the District will be paid), actual growth, if any, will be funded and allocated to the colleges based upon the historical proportional FTES

Enrollment Decline: Even though a college or colleges within the District fail to achieve their growth target or if they experience an enrollment decline, no revenue adjustment will be necessary as long as the District-wide FTES base is maintained.

Should District-wide enrollment decline occur any budget adjustment shall be based on the Annual CCFS Enrollment Report filed in July or as amended in October following fiscal year end. In addition, the state general revenue base for the subsequent year will be adjusted according to the state allocation model if actual FTES falls below the funded base.

Such enrollment declines may be mitigated through Budget Stabilization as reflected in Section A.2, or through a Strategic Shift of Summer FTES as noted in Section V-A-4-iii below.

ii. **Apportionment Revenue Adjustments/Reconciliation**

There is a recalculation of apportionment revenue that occurs in February following the close of the fiscal year. Any required reconciliation (increase or decrease) to prior year revenues is treated as an addition or reduction to the colleges' and the District Office's current budget year. In such an event the District will endeavor to use one-time resources, to the extent they are available, so as not to interrupt current year services.

If apportionment revenue is reduced from the prior year base for any of the following reasons: a) prospective revenue reduction anticipated in budget development; b) mid-year deficit resulting from insufficient tax revenues or enrollment fees; or c) as a result of end-of-year adjustment, the amount calculated in Step 1 will be reduced resulting in a proportionate budgetary reduction. Potential mid-year adjustments or any re-shifting of FTES between sites shall be agreed upon by the Chancellor's Cabinet.

Additional funding received by the District after the budget is adopted, not directly attributable to an individual college, shall be distributed through the allocation model as delineated in the above revenue allocation parameters.

In the event that actual revenues vary from the amounts projected and allocated to colleges and District Office for the fiscal year, the college and the District Office budgets will be recalculated and adjusted accordingly during a year-end "reconciliation."

iii. **<u>Strategic Shift of Summer FTES</u>**

There may be times where it is in the best financial interest of the District to shift summer FTES between fiscal years. FTES shall be shifted, as necessary, to meet targeted needs. If this is not possible, then care needs to be exercised to ensure that any such shift not create an undue disadvantage to any of the colleges such as impacting Basic Allocation funding. If a disadvantage is apparent, then steps to mitigate this occurrence will be developed by the Chancellor's Cabinet.

Restoring "borrowed" FTES should occur on the same basis as it was drawn down up to the levels of FTES borrowed. If it cannot be restored in that fashion, care should be taken to evaluate if a disadvantage is created for any college.

Borrowing of summer FTES is not a college-level decision, but rather a District-level determination that is made in consultation and concurrence with the Chancellor's Cabinet. It is not a mechanism available to individual colleges to sustain their internal FTES levels. In the event the District borrows summer FTES or goes on stability, any disproportionate advantages or disadvantages resulting from that decision shall be reviewed, and possibly rectified, by the Chancellor's Cabinet.

STEP 2 – Other State Revenues-included in this step to be distributed thru the model-includes:

a. **On-going:**
   i. Lottery (unrestricted)
   ii. Enrollment Fee Administration (2% of Fee)

b. **One-time**:
   i. Part-Time Faculty Parity
   ii. Mandate Cost Reimbursement

STEP 3 – District-wide local revenues to be distributed through the allocation model Include:

a. Joint Use Development Revenue

b. La Habra Rentals Revenue
c. KOCE Debt Payment
d. Interest Income

STEP 4 - District Services and District-wide Operational Costs

Assessments shall be deducted from computed allocation revenue for services provided to the colleges or for each location to fund its proportional share of District-wide expense.

District-wide

District-wide expenditures are those that are contractual, regulatory or committed and of benefit to the entire District. Activities and related costs for these three categories include, but are not limited to, the following:

1. **Contractual Expenses (collective bargaining)**

   Included in this category are costs related to implementation of various employee contracts and are subject to revision of collective bargaining agreements.
   a. CFE Senate Release Time
   b. CFE Collective Bargaining Release Time
   c. Sabbatical Bonding Reimbursement
   d. Classified Collective Bargaining Release Time
   e. Management Professional Development
   f. Classified Professional Development
   g. Confidential Professional Development
   h. CFE and CCA Professional Development
   i. CFE and Classified Retraining

2. **Regulatory Expenses**
   Included in this category are mandated or unavoidable/fixed costs such as:
   a. District-wide independent audit
   b. District-wide insurance programs, e.g. property and liability, student accident
   c. Unemployment insurance local experience charges
   d. Election expenses
   e. Specified District-wide utilities
   f. Legal expenses
   g. Technology maintenance agreements

3. **Other Contractual:** Included in this category is funding for future events and current initiatives such as:

   a. Other post-employment benefits (OPEB) reserve fund
   b. Self-Insurance Fund
   c. Legal settlements

District-wide operational costs are estimated for budget development utilizing the best known information at the time and are adjusted for actual expenditures at the end of the fiscal year during the “reconciliation.”

District Services/District Office

These are costs incurred for operation of centralized services provided by District Office staff. The assessment to support District Services is based upon actual cost and review of historical expenditures as may be adjusted by current conditions. The cost represented in the District Service assessment funds activities overseen by the District Office such as: District Governing Board, Chancellor's Office, Educational Services, Administrative Services, Human Resources, Finance, Facilities Planning, Information Technology, Marketing, Internal Auditing, International Education and Research.

STEP 5 – Dedicated Revenue

Dedicated revenue is defined as those revenues earned specifically by location and directly under the control of each college or the District Office, including, but not limited to, the following examples:

1. Facility rentals – based on each location’s estimate of revenues to be collected from external use of District facilities
2. Student Transcript Fees
3. Non Resident Tuition (operational and capital)
4. Bookstore Operations
5. Student Parking Fees
6. Enterprise Program (Swap Meet Operation)
7. Contract Education

5. Expenditure Budgets

Annual spending plans for each college, the District Office, and

District-wide, shall be developed as reflected in this section. All such budget expenditure plans must be developed with consideration of the parameters outlined below:

i. allocating resources to achieve the funded level of FTES is a primary objective for all colleges;
ii. requirements of the collective bargaining contracts apply to college level decisions;
iii. the state-required, full-time Faculty Obligation Number (FON) must be maintained. (Due to funding implications, care must be exercised to maintain equitable full-time/part-time balance at each college. Full-time faculty numbers, ratios and staffing plans will be monitored on a District-wide basis.);
iv. in making expenditure decisions, the impact upon the 50% law calculation must be considered and budgeted appropriately;
v. care should be exercised in maintaining the public investment in the physical plant, facilities and grounds of the campuses;
vi. in order to promote similar levels of support services at each of the colleges, appropriate levels of classified and management staffing need to be maintained.

a. Colleges

Subsequent to allocation of revenue, each college will develop a balanced budget plan in accordance with the District Budget Calendar and agreed upon District-wide budget assumptions. The allocations may be stretched to meet as many needs as possible in a process involving participation of faculty and other college staff to ensure (1) the resource requirements for educational and support programs are considered, and (2) priorities are developed.

Colleges are responsible for developing an expenditure budget that utilizes the level of funding outlined in the revenue sections above, and for funding the following programs as part of their budget plans:

i. management sabbaticals
ii. part-time faculty office hours
iii. Step/Column
iv. COLA
v. part-time faculty health insurance

vi. department chair reassigned time
vii. faculty substitutes
viii. vacation pay offs
ix. re-classification effects

b. District Office/District Services

The development of the District Office Budget Plan is the responsibility of District Office staff. District Office is responsible for utilizing its allocation to provide centralized services to the colleges that are efficient, cost effective, and responsive to campus needs. Examples of such services include the Chancellor's Office, Board of Trustees, Public Affairs/Marketing, Human Resources, Risk Management, Educational Services, Institutional Research, Business Operations, Internal Auditing, Fiscal Services, Payroll, Purchasing, Facilities Planning, and Information Technology. It shall reflect the program elements noted below.

i. management sabbaticals
ii. Step/Column
iii. COLA
iv. vacation pay offs
v. re-classification effects

c. District-wide

The Development of the annual expenditure budgets for District-wide operational costs (Step 6) are the responsibility of District Office staff. Based on projected levels of expenditure for the current fiscal year and taking into account new District-wide requirements, as well as unusual or one-time anomalies, the District-wide budget shall be appropriately framed to meet the obligations of the District. Examples of District-wide services include those expenses associated with State and Federal regulatory issues, insurances, legal costs, Independent Audit Expenses and Retiree Health Benefit Costs

College- and District Office-proposed expenditure budgets are compared to the departmental annual operational plans for consistency and to ensure adequate funding for location priorities. Final submittal is done to the District Office Finance Department where all location budgets are consolidated into a single budget document.

6. Long Term Plans

The District's budgeting process includes long-range planning and provides linkages to the District's program planning, review efforts and accreditation. The District will develop a three-year budgetary look-ahead plan. Each campus is also responsible for developing its budget with a multi-year outlook.

a. <u>Colleges</u>

Each of the colleges shall maintain a long-term plan for facilities maintenance/improvement/expansion and new or expanded programs. The Chancellor, in consultation with the Presidents, will evaluate the availability and source of additional funding that may accrue to the colleges beyond what the model provides. Approved projects shall be included in the colleges' balanced budget proposals.

b. <u>District Office</u>

District Office and District-wide operational costs also may require additional funding to implement new initiatives in support of the colleges and the District. The Chancellor will evaluate requests for such funds on a case-by-case basis. The source of this funding must be identified. Should the source be other than District Office revenue and/or District Office reserves, the requests will also be evaluated by the Chancellor's Cabinet. Approved projects shall be included in the District Office balanced budget proposal.

7. Reserves and Deficits

a. Reserves

In order to maintain a sufficient level of budgetary reserve, each college will be allowed to retain unspent funds from the prior year. The combination of the beginning balance and the current year budgeted revenue represents the total resources available at each college.

Unspent funds from the District Office will become part of District-wide fund balance.

District-wide reserves represent minimum reserve levels established by the Governing Board per Board Policy 6200, budget guidelines and budget planning parameters.

<u>Deficits</u> A budgetary deficit is defined as a budget imbalance where current revenue is insufficient to cover expenses within a specific fiscal year. In the event a deficit exists at a location, reserves shall be used to cover the deficit generated by that location.

B. BUDGET CONTROL, ADMINISTRATION, AND REPORTS

1. Budget Control

Budget control is an instrument for planning because a budget prescribes resources to carry out those plans. This makes it possible to set priorities and maintain control over resources to achieve those priorities. A budget must present current expenditures in balance with projected current-year resources.

The Vice President of Administrative Services at each location is responsible for accurate projections which are vital to budget control. The Vice Chancellor of Finance and Administrative Services is responsible for District-wide oversight and compliance. During the course of the fiscal year, the Vice Chancellor of Finance and Administrative Services must analyze revenue projections. If updated revenue projections are less than budgeted amounts, recommendations must be developed for resolving the imbalance and communicated to each location.

The District's principal source of revenue is based upon enrollment and FTES data. Actual summer school and fall semester FTES estimates (based on student census data) will be available by November 1. At this point, the Chancellor and college Presidents will be advised whether or not actual enrollment varies from that previously estimated.

In mid-January, the above process will be repeated based on First Period Attendance Reports which are due to the state Chancellor's Office by January 15.

Another check point occurs in mid-April when census spring semester enrollments are available. Second period of enrollment is reported by April 20. State apportionment revenue for the year will not become firm until the Second Period Apportionment notice is received from the state in late June.

2. Budget Administration

Subsequent to revenue allocation, the colleges shall administer their expenditure budgets with a primary focus on reaching its FTES target and meeting its student performance goals. The allocation system at the college level fixes the budget responsibility at the organizational unit level (dean, senior dean, administrator, etc.).

Flexibility in making budget transfers within available budget balances is permissible. Overspending is not permitted. All financial transactions, including certain budget transfers, require Board approval, either by ratification or approval in advance for larger items.

3. Budget Reports

Account balance reports and detailed expenditure reports are available to all organizational units. Reports are also available at summary levels for use by the college Presidents. In addition, finance system information is readily available on-line for immediate inquiry as to budget account status and expenditure transaction~~s~~ detail.

This system ensures a non-deficit financial operation by establishing a reserve and allocating available money only. Budget balancing and constant monitoring at various levels throughout the year provide proper protection.

VI. RESTRICTED GENERAL FUND

The restricted general fund consists of federal, state, and local categorical programs, parking, and other external funding sources such as private grants. All funds discussed in this section are accounted for in the District's Restricted General Fund

A. BUDGET DEVELOPMENT AND CONTROL

In addition to the general principles and practices of budgeting outlined above, categorical funds require specialized budget development and control. These funds originate from a variety of state, federal and private sources. They are allocated to the District and/or the colleges with a wide range of specific requirements and restrictions for program operations and budgeting, periods of expenditure, periodic reporting requirements and financial/program auditing. Depending on the source of the allocation or grant, the budget year may coincide with the District's fiscal year, or it may require accounting for revenue and expenditures in a different fiscal year period (e.g. federal grants typically use an October 1 to September 30 fiscal year). In some cases, allocations and grants may extend to multiple years and require special oversight. Because these requirements and restrictions are different for each allocation or grant, budget development for these funds is necessarily done on an individualized basis.

1. College-Specific Allocations and Grants

In cases in which the funds come to the District as a specific college allocation or grant, that college will receive the funds directly and will assume responsibility for:

a. planning the program and developing a budget that meets the requirements of the grantor;
b. managing the program and associated budget for the lifetime of the allocation or grant;
c. identifying and working with the District Office to resolve any issue that might otherwise result in disallowed or questioned costs;
d. preparing accurate interim and final program and financial reports and submitting them to the grantor in a timely manner, as required; and
e. providing staff services to auditors for program and/or financial audits, as required.

The District Office oversees and monitors the processes described above and assumes responsibility for:

a. reviewing and certifying program plans and associated budgets prior to submission to the grantor for compatibility with District rules of operation; standards for purchasing; policies and practices for the hiring, compensation and evaluation of grant funded positions;
b. ensuring ongoing compliance of all program and budget requirements during the life of the allocation or grant;
c. identifying and working with the college to resolve any issue that might otherwise result in disallowed or questioned costs, and
d. reviewing and certifying interim and final program and financial reports prior to submission to the grantor.

2. Non-College-Specific Allocations and Grants

When funding is not college specific, allocation to the colleges will be in the same manner as provided to the District by the grantor, unless there are compelling educational reasons to do otherwise. Certain state allocations, such as Extended Opportunity Programs and Services

(EOPS), Disabled Students Programs & Services (DSP&S), and Student Success and Support Program (SSSP), have restricted expenditure requirements that determine allocations to colleges. Federal, state, or private grants will be allocated and administered per the grant agreement.

In cases in which non-college specific funding is allocated to the colleges for management, the colleges and the District Office assume responsibilities as outlined in Section III.A., College-Specific Allocations and Grants.

When funding remains at the District level, the District Office assumes full responsibility for management of the funds as outlined in Section III.A., College-Specific Allocations and Grants.

VII. SUMMARY

The SB 361 allocation model provides the colleges with autonomy and local decision-making ability while maintaining a consistent service level from the District Office. The principles upon which the model was founded are:

1. the model must be perceived as fair;
2. the model must be easily understood;
3. the model must provide proper performance incentives; and
4. the model must work in years of growth and contraction.

The model will be continually assessed in order to adhere to these principles and to provide the necessary adjustments over time.

Ratified December 2, 2013
Ratified June 17, 2015