Board of Trustees
Budget Study Session
Budget Development
FY2016/2017
February 23, 2016
## Our Financial Picture Today

<table>
<thead>
<tr>
<th></th>
<th>2015-16 2Q</th>
<th>2016-17 Estimated</th>
<th>2017-18 Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Fund Balance</strong></td>
<td>$12.6M</td>
<td>$15.6M</td>
<td>$11.1M</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$101.7M</td>
<td>$98.1M</td>
<td>$100.2M</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$98.7M</td>
<td>$102.6M</td>
<td>$104.4M</td>
</tr>
<tr>
<td><strong>Fund balance Increase (decrease)</strong></td>
<td>$3.0M</td>
<td>$(4.5)M</td>
<td>$(4.2)M</td>
</tr>
<tr>
<td><strong>Ending Fund Balance</strong></td>
<td>$15.6M</td>
<td>$11.1M</td>
<td>$6.9M</td>
</tr>
<tr>
<td><strong>Ending Fund Balance %</strong></td>
<td>15.9%</td>
<td>10.9%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>
Major Assumptions

- Property Tax Increase 3.96% at 2Q
  - Since updated to 4.54%
  - Actual TBD
- Property Taxes in future years assumes 3.5% increase
  - Actual TBD
- Prop 30 sunset, may be extended
- Blue Cross Premium Increases, 25%, 11%, 11%
- Kaiser Premium Increases, 5%, 5%, 5%
Major Assumptions

- STRS/PERS Escalators
  - Approximately 2% Annually
- Four additional Full-Time Faculty in 2016-17
- ACA Tax Extended to 2020
  - $1.8M++
- Includes step & column
- Does not factor COLA increases
Ending Fund Balance (General Fund 10) - 4.54% Property Taxes Increase
Ending Fund Balance
Various Simulations 2015-16 Property Tax 5%
Property Tax Change History

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage Changed in Property Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2002</td>
<td>10.4%</td>
</tr>
<tr>
<td>2002-2003</td>
<td>6.2%</td>
</tr>
<tr>
<td>2003-2004</td>
<td>1.9%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>8.4%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>9.3%</td>
</tr>
<tr>
<td>2006-2007</td>
<td>9.3%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>7.2%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>2.9%</td>
</tr>
<tr>
<td>2009-2010</td>
<td>2.6%</td>
</tr>
<tr>
<td>2010-2011</td>
<td>3.2%</td>
</tr>
<tr>
<td>2011-2012</td>
<td>-4.0%</td>
</tr>
<tr>
<td>2012-2013</td>
<td>8.5%</td>
</tr>
<tr>
<td>2013-2014</td>
<td>10.3%</td>
</tr>
<tr>
<td>2014-2015</td>
<td>4.5%</td>
</tr>
<tr>
<td>2015-2016 (Current)</td>
<td>-6.0%</td>
</tr>
</tbody>
</table>
Property Tax Analysis: Data Points
2013 - 2016

D. Smith
DOC: 02-23-2016_BOTBudgetStudySession
Basic Data Points

FON Fall 2015:
- SJECCD 234.44
- Obligation 223.77
- Difference 10.67

1% cost of salary increase all Bargaining Groups, $772,651

1% increase in Property Taxes, $820,338
Employment Demographics
2003 - 2015

MSC
Classified
Faculty
Comparison between New Property Taxes and Benefit Costs

2015-16 New Property Taxes and New Benefit Costs, Projections at 2nd Quarter

Based on 4.54% increase (3rd Data Point)

Total: $3,579,923

Property Taxes*

Worker's Comp., 109,425 Total: $2,556,734

Unemployment Ins., 5,462

H&W, 1,797,447

Soc. Sec., 137,891

STRS, 524,851

PERS, (18,342)

Benefits**
50% Law

“There shall be expended each fiscal year for payment of salaries of classroom instructors, 50% of the District’s current expense of education.”

Included (Numerator)

Classroom Instructors  Salary & Benefits
Instructional Aides    Salary & Benefits
50% Law

Included (Denominator)
- Costs from above
- General Administration
- Counseling & Library
- Transfer Center
- Utilities

Exclusions (Not in Equation)
- Contract Education
- Bookstores
- Constructions
- Student Activities
- Student Grants

- Classroom Supplies
- Conferences
- Staff Development
- Reassigned Faculty Time
- Liability Insurance
- Capital Outlay
- Leases
- Lottery Proceeds
- Cafeteria
# Ending Fund Balance Averages

Unrestricted General Fund

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statewide Average</strong></td>
<td>16.2%</td>
<td>18.7%</td>
<td>17.1%</td>
<td>17.6%</td>
<td>17.5%</td>
<td>17.6%</td>
</tr>
<tr>
<td><strong>Basic Aid Average</strong></td>
<td>14.4%</td>
<td>15.8%</td>
<td>15.8%</td>
<td>17.3%</td>
<td>21.0%</td>
<td>21.9%</td>
</tr>
<tr>
<td><strong>Bay 10 Average</strong></td>
<td>12.9%</td>
<td>16.5%</td>
<td>16.8%</td>
<td>17.7%</td>
<td>19.7%</td>
<td>19.8%</td>
</tr>
<tr>
<td><strong>SJECCD</strong></td>
<td>6.5%</td>
<td>10.7%</td>
<td>12.3%</td>
<td>15.1%</td>
<td>16.2%</td>
<td>12.9%</td>
</tr>
</tbody>
</table>
Standard and Poor’s Ratings Services

May 27, 2015  Rating: AA Stable

• “The outlook is stable.”

• “Strengths: record of maintaining strong reserves for the past four fiscal years, which we expect will continue,...”
Standard and Poor’s Ratings Services

Outlook

“The stable outlook reflects our view of the district’s strong financial position and strong momentum in tax base growth, which should translate into continuing operating revenue growth. We could raise the rating during the next two years if such revenue growth translates into sustainable and significant strengthening in reserves, ...
Standard and Poor’s Ratings Services

...particularly if reinforced by enhancements to the district’s formal policies and reporting practices. We do not anticipate lowering the rating unless the district experiences a material weakening in financial performance such as could occur if a reversal in economic performance causes revenues to significantly weaken.”

Page 2 of 2
Moody’s Investors Service  
May 22, 2015  Rating: Aa1

Summary

• “The Aa1 general obligation bond rating reflects the district’s immense and stable assessed valuation that will likely continue to increase in value and strong county resident socioeconomic profile.”

• “The rating also incorporates the district’s below-average reserve levels that should remain stable,”
WHAT COULD MAKE THE RATING GO UP

• “Significant and sustained increase in general fund reserve levels.”

• “Sizeable increase in assessed value and resident wealth levels.”
WHAT COULD MAKE THE RATING GO DOWN

• “Any deterioration in the district’s financial and/or liquidity position.”
• “Increase debt burden.”
• “Loss of Basic Aid designation.”

CHALLENGES

• “Below-average general fund reserve levels.”
Moody’s Investors Service

• “The district has fund balances that are below-average for the rating category, though reserves should remain stable in the near-term given the district’s Basic Aid designation and the financial policies implemented by district management.”
Moody’s Investors Service

“District management honors its 7% minimum reserve policy and created a reserve stabilization fund in fiscal 2015 that will be used as a rainy day fund in years of economic downturn to maintain services.”
Proposition 2 & Governor’s Caution

Prop 2 – 2014
Source: Analysis by the Legislative Analyst
“Rainy-Day” Reserves

“Governments use budget reserves to save money when the economy is doing well. This means that money is saved instead of being spent on public programs during these periods of time. When the economy gets worse and their revenues decline, governments use money that they saved to reduce the amount of spending cuts, tax increases, and other actions needed to balance their budgets. In other words, if a government saves more in reserves when the economy is doing well, it spends less during that time and has more money to spend when the economy is doing poorly.”
Proposition 2 & Governor’s Caution

• LAO 01/07/16: Governor advises “extreme caution despite improved fiscal conditions.”

• LAO “The current economic recovery has reached a seven year mark, most recoveries only last five years before a downturn. As a result, Governor Brown emphasizes that the State’s primary goal should be to fully-fund the Rainy Day Fund.”
National Advisory Council Reserves – How & When

Source: National Advisory Council on State and Local Budgeting Practice

“Governments should maintain a prudent level of financial reserves to protect against reducing service levels...”

“The policies should establish how and when a government builds up reserve funds and should identify the purposes for which they may be used.”
Budget Planning: Going Forward

- Begin funding Stabilization Fund – “Rainy Day”
- Milpitas comes on-line
  - FY2016-17, $750K on-going
- Total cost of ownership
  - New buildings coming on-line at Colleges
  - Building related expenses
  - Program related expenses
Budget Planning: Going Forward

- 50% Law: **At risk** FY2015-16, would require subsequent year corrective action.

- Add **FT Faculty**: Differential of cost of FT Adjunct Faculty, **evaluate efficiency opportunities**.

- Collective Bargaining considerations.
What They Are

- General budget **guidelines**.
- Overarching **values** to help frame and **guide** budget deliberations.
- Overarching **values** for prioritization and resource **allocation**.
- Provide a **standard** against which our fiscal performance will be judged.
Budget Principles

Current Board of Trustees Principles

1. Trustees to provide the Chancellor & staff with policy framework for managing and “appropriate” fund balance & structural balance.

2. Validate “student-centered” approach.

3. Compliance with accreditation standards.

4. Distinguish between on-going vs. one-time savings & needs.

5. Add back slowly and strategically to maximize program initiatives.

5. Manage new resource allocations or funding reductions systematically and strategically to maximize student equity and success.
Budget Principles

Current Board of Trustees Principles

6. Seek efficiencies and revenue opportunities.

7. Maintain a minimum 7% Unrestricted General Fund reserve.

8. **Establish a** District Stabilization Fund.
   - Board authority required to access.
   - Access during economic downturn.
   - Replenish in healthy fiscal times.
   - At Budget Adoption, dedicate 50% of annual “one-time” money to District Stabilization Fund to a maximum of $500,000 annually.
   - At Fiscal Year End, transfer up to $500,000 of “one-time” money, when General Fund balance finishes above 10%.
   - Cap Stabilization Fund at 5% of General Fund expenditures.
Budget Principles

Current Board of Trustees Principles

9. Establish and maintain a balanced funding model.
   • Compensation
   • Board Initiatives (staffing)
   • Global Ends Policy Initiatives

10. Property Tax projections will be based on 3.5% growth and will be adjusted each period based on County Tax Collector updates.
Budget Principles

New Board of Trustees Principles for Consideration

12. Use data to inform decision making.

13. Seed student opportunity and access revenue (land-lease proceeds) redirecting current land-lease dollars and future land-lease dollars.
Budget Principles

New Board of Trustees Principles for Consideration

14. Financially plan and budget for total cost of ownership, including building-related expenses and program-related expenses.

15. Develop new District Budget Allocation Model.
Budget Principles

- Review
- Board Discussion
- Recommendations
- Take Action