Board of Trustees
Budget Study Session

Budget Development
2015 - 2016

D. Smith
February 24, 2015
Presentation Overview

- Economic Review & Outlook
- District Property Tax Overview
- Rainy Day Fund Proposal
- Employment Demographics
- 50% Law Review
- Board Principles, Review, Discuss, Take Action
California Economic Forecast

Mark Schniepp, Ph.D.

Director, California Economic Forecast

Dr. Schniepp served as senior economist to Kathleen Connell, the California State Controller from 1999 to 2003.

He taught as a past faculty member of the Department of Economics at the University of California, Santa Barbara, teaching intermediate micro-economic and macroeconomic theory.

He was the keynote speaker at the Association of California Community College Administrators’ Governor’s Proposed Budget Workshop in January 2015.
The U.S. Economy Expanding

- No longer a recovery; nearing the top
- Nearly all cylinders are firing
- Jobs
- Spending
- Business investments on equipment, software
- Exports
- Even the government sector has stabilized
U.S. Economic Summary

The recovery is over. We are now experiencing the expansion phase of the business cycle.

Unemployment rates are falling, and moving toward full employment by the end of 2015.

Most economic indicators are rising at rates consistent with a healthy economy.

The only laggard sector is housing.

Keep in mind that we are 5+ years on the plus side of the economic cycle.
When is the next Recession?

Well...

It’s too far away to predict with any confidence.

But statistically, it would occur in 2018.
GDP is commonly used as an indicator of the economic health of a country, as well as to gauge a country’s standard of living.
A strengthening state economy is continuing to push revenues higher.

Under Prop 98, most of those revenues are dedicated to K–12 schools and community colleges.

The 2015–2016 year is the last full year for Prop 30 revenues.

- The sales tax rate of ¼% expires at end of 2016.
- Prop 30 sunsets at the end of 2018 (approx. $1.3M).
District Assessed Value
1989 - 2014

Source: California Municipal Statistics, Inc. and Santa Clara County; Data from 1989 to 2014
Property Tax Analysis
2001 - 2014

Year | Tax Rate
--- | ---
2001-2002 | 10.4%
2002-2003 | 6.2%
2003-2004 | 1.9%
2004-2005 | 8.4%
2005-2006 | 9.3%
2006-2007 | 9.3%
2007-2008 | 7.2%
2008-2009 | 2.9%
2009-2010 | -6.0%
2010-2011 | -4.0%
2011-2012 | 2.6%
2012-2013 | 3.2%
2013-2014 | 8.5%
2014-2015 (Est.) | 8.8%
Property Tax Analysis: Data Points
2012 - 2014

-1.00%  2.00%  4.00%  6.00%  8.00%  10.00%

2012-2013
-0.30%
2.46%  2.95%  3.21%

2013-2014
5.28%  5.36%  7.31%  7.83%  8.47%

2014-2015
6.77%  7.69%  8.82%

August  November  February  April  June
Governor’s Budget Proposal 2015 - 2016

- $373M: Growth and apportionment (not SJECCD)
- $200M: Student success & student equity
  - Split between student success & student equity
  - Based on MIS reporting & number of students served
  - Subsequent year funding & match requirements may change annually
- $77M: Career technical education & apprenticeship
- $40M: Prop 39 (Clean energy)
- $95M: Deferrals (not SJECCD)
- $353M: Prior mandated costs
  - “One-time dollars” in 2015 - 2016
  - Plus $50M “one-time dollars” in 2014 - 2015
- $500M: Adult education (AB86)
Recommendation for 2015 – 2016 Budget

- Assumes Governor’s Proposed Budget at January 2015 is adopted.
- Anticipate property taxes will again be 3%.
  - Use added resources for
    - Compensation
    - Board Initiatives (staffing)
    - Global Ends Policy Initiatives
- Allocate State “One-Time Dollars”
  - $500K – San Jose City College
  - $500K – Evergreen Valley College
  - $200K – Workforce Institute
  - $3M – District Financial Stabilization Fund
Simulation: 2nd Quarter
Does not include additional compensation; assumes no allocation of “one-time” $3.8M
### Simulation: Based on 5% Compensation

Assumes no allocation of “one-time” $3.8M

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Projected</th>
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<tbody>
<tr>
<td>01/02</td>
<td>9.10%</td>
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<tr>
<td>02/03</td>
<td>11.80%</td>
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<tr>
<td>03/04</td>
<td>14.65%</td>
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<td>04/05</td>
<td>8.39%</td>
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<tr>
<td>05/06</td>
<td>14.80%</td>
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<td>06/07</td>
<td>7.81%</td>
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<td>07/08</td>
<td>6.22%</td>
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<tr>
<td>08/09</td>
<td>10.99%</td>
<td></td>
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<tr>
<td>09/10</td>
<td>11.59%</td>
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<tr>
<td>10/11</td>
<td>14.39%</td>
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<tr>
<td>11/12</td>
<td>16.14%</td>
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<td>12/13</td>
<td>12.69%</td>
<td>15.15%</td>
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<tr>
<td>13/14</td>
<td>13.11%</td>
<td>11.30%</td>
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<tr>
<td>14/15 Est.</td>
<td>16.00%</td>
<td>14.00%</td>
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<tr>
<td>15/16 Est.</td>
<td>12.00%</td>
<td>12.00%</td>
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<tr>
<td>16/17 Est.</td>
<td>10.00%</td>
<td>10.00%</td>
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<tr>
<td>17/18 Est.</td>
<td>8.00%</td>
<td>8.00%</td>
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*General Fund $ (Fund 10)*
Simulation: Based on 2015 – 2016 Recommendation
Includes 5% compensation in 2014-2015, College and WI “one-time” allocation, and “one-time” establishment of District Financial Stabilization Fund
Prop 2 – 2014
State Budget
Budget Stabilization Account
Legislative Constitutional Amendment

Characteristics

Requires annual transfer of 1.5% of General Fund revenues to State Budget Stabilization account.

Caps Budget Stabilization account at 10% of General Fund revenues.

Allows limited use of funds in case of emergency or if there is a State budget deficit.
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.”
Board Principle

District Budget
District Financial Stabilization Fund

Characteristics

Seeded in 2015 – 2016 with $3M from pay down of outstanding mandated claims. (Assumes January 2015 Governor’s proposal is funded in Budget Act.)


Caps District Financial Stabilization Fund at $5M.
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.”

<table>
<thead>
<tr>
<th>Included (Numerator)</th>
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<tbody>
<tr>
<td>Classroom Instructors</td>
</tr>
<tr>
<td>Instructional Aides</td>
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</tbody>
</table>
## 50% Law

### Denominator
- Costs from above
- General Administration
- Counseling & Library
- Transfer Center
- Utilities

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

<table>
<thead>
<tr>
<th>Denominator</th>
<th>Exclusions (Not in Equation)</th>
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<tbody>
<tr>
<td>Classroom Supplies</td>
<td>Capital Outlay</td>
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<tr>
<td>Conferences</td>
<td>Leases</td>
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<tr>
<td>Staff Development</td>
<td>Lottery Proceeds</td>
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<tr>
<td>Reassigned Faculty Time</td>
<td>Cafeteria</td>
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50% Law
SJECCD Experience
1994 - 2014
### 50% Law Averages

<table>
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<tbody>
<tr>
<td><strong>Statewide Average</strong></td>
<td>51.75%</td>
<td>51.43%</td>
<td>51.41%</td>
<td>51.50%</td>
<td>51.37%</td>
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<tr>
<td><strong>Basic Aid Average</strong></td>
<td>52.15%</td>
<td>51.79%</td>
<td>51.82%</td>
<td>52.01%</td>
<td>50.92%</td>
</tr>
<tr>
<td><strong>Bay 10 Average</strong></td>
<td>52.01%</td>
<td>51.77%</td>
<td>52.09%</td>
<td>51.85%</td>
<td>51.52%</td>
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<tr>
<td><strong>SJECCD</strong></td>
<td>54.99%</td>
<td>52.90%</td>
<td>54.15%</td>
<td>55.36%</td>
<td>51.13%</td>
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## Ending Fund Balance Averages
### Unrestricted General Fund

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<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>
</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>
</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>
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<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>
</tr>
</tbody>
</table>
Budget Principles

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
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

6. Seek efficiencies and revenue opportunities

7. Maintain a minimum 7% Unrestricted General Fund reserve
8. Establish and maintain an employee salary and compensation structure that is competitive among the Bay 10 Community College Districts

9. Establish a $5M “one-time” District Financial Stabilization Fund
   - Board authority required to access
   - Access during economic downturn
   - Replenish in healthy fiscal times
New Board of Trustees Principles for Consideration

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

11. Property Tax projections will be based on 3% growth and will be adjusted each period based on County Tax Collector updates.
New Board of Trustees Principles for Consideration

12. Adopted Budgets and Quarterly Reports will include long-term revenue and expenditure forecasts, enrollment experience, and financial risk analysis. *(BP6200)*
Budget Principles

- Review
- Board Discussion
- Recommendations
- Take Action
GDP is commonly used as an indicator of the economic health of a country, as well as to gauge a country's standard of living.

The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.
Mark Schniepp, Ph.D.

- Currently Director of the California Economic Forecast in Santa Barbara.
- Prepares economic analysis and county level forecasts for Cal Trans, Kaiser Permanente, the California Association of Realtors, and the Southern California Association of Governments.
- Developed residential and office sector forecasting models for strategic decision making.
- Served as senior economist to Kathleen Connell, the California State Controller from 1999 to 2003.
- Served as Director of the Economic Forecast Project at the University of California, Santa Barbara.
- Taught as a past faculty member of the Department of Economics at the University of California, Santa Barbara teaching intermediate micro-economic and macroeconomic theory.
- Received a Ph.D. from the University of California, Santa Barbara.
Section 10.02(c) of the Trust Agreement between the District and the bondholder states, “The District shall maintain an unrestricted general fund ending balance at June 30 of each year that is equal to or greater than 5% of its total unrestricted general fund expenditures as reported in its annual Financial and Budget report on form CCFS-311 for such Fiscal Year.”
OPEB

The OPEB Trust pays the annual retiree benefits of approximately $3.5M. Fund 10 contributes $2M annually towards the debt service associated with the bonds that funded the OPEB Trust.

Currently, Fund 10 realizes at $1.5M savings. (Cost of benefits less the cost of debt service.)

At some point in the future, the District will cross the break-even point (e.g., retiree benefits cost less than $2M because of reduced population) and Fund 10 will still have to pay the $2M in debt service.
School Services -- Boom-Bust

Source: School Services of California, Community Colleges Update, January 23, 2015

In a report released on January 13, 2015, four days after the release of Governor Jerry Brown’s 2015 – 2016 State Budget proposal, the Legislative Analyst’s Office (LAO) concludes that the Governor’s State Budget proposal for 2015 – 2016 is “generally prudent” and, if enacted by the Legislature, “could help avoid the boom and bust budgeting of the past”.
LAO Economy Cyclical

Source: School Services of California, Community Colleges Update, January 23, 2015

LAO, “Through Proposition 2 and the ‘Rainy Day Fund’, the Governor recognizes that California’s economy remains cyclical and will at some point reverse course.”

The LAO notes that there is upside potential in the Administrator’s revenue estimate for the current year. Citing the strength of the revenues collected in December, the LAO concludes that a revenue gain of $1 billion to $2 billion in the current year “seems likely” and an even larger gain is possible.
School Services
Basic Aid – more vulnerable

Source: School Services of California, Community Colleges Update, September 5, 2014

“A Basic Aid district needs a larger reserve, since its dependence on property tax revenues leaves it more vulnerable to budget fluctuations than state apportionment districts.”
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.”
Key Facts
About California Community Colleges
Source: California Community Colleges Chancellor’s Office Update, January 16, 2015

Impact of Forced Rationing of Education

During the Recession

- 2009 – 2010 Categoricals cut $313M
- 2009 – 2010 Apportionment cut $190M
- 2011 – 2012 Apportionment cut $385M
- Received no cost of living increases between 2007–2008 and 2012–2013, creating a cumulative loss of purchasing power total 16.3%.
Key Facts
About California Community Colleges
Source: California Community Colleges Chancellor’s Office Update, January 16, 2015

Impact of Forced Rationing of Education
During the Recession

California Community College enrollment decreased by 585,000 students to 2.3M from 2008–2009 to 2012–2013 due to severe budget cuts.

Course sections were reduced by approximately 25% due to State funding reductions.

From 2008–2009 to 2011–2012, the Community College system reduced summer and winter sections by nearly 50%.
Impact of Budget Reductions on SJECCD and California Community Colleges

Presentation: Dr. Rita Cepeda, March 26, 2013

- Budget cuts over the past four years have resulted in reductions in the numbers of SJECCD’s student enrollment, full-time equivalent students, seat count, and course sections; and an increase in wait lists for course enrollments.
Impact of Budget Reductions on SJECCD and California Community Colleges

Presentation: Dr. Rita Cepeda, March 26, 2013

Colleges have been forced to:

- Reduce course offerings by roughly 15% resulting in hundreds of thousands of students being turned away.
- Increase class sizes
- Lay off adjunct faculty and other staff
- Institute furloughs
- Spend down reserves and borrow money to manage cash flow
Historical FTES
1999 - 2014

Historical FTES - District-wide
Analysis: Relationship Between District Assessed Valuation and District Property Taxes
2004 - 2014

District Assessed Valuation
District Property Taxes
Talking Points

- FTES cap 13,052
- Actual FTES 12,366
- Below cap 686
- Each FTES worth $4,636
# Ending Fund Balance

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<tbody>
<tr>
<td>SJECCD from the bottom</td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
<td>9&lt;sup&gt;th&lt;/sup&gt;</td>
<td>24&lt;sup&gt;th&lt;/sup&gt;</td>
<td>33&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>35&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Districts with larger ending fund balances</td>
<td>67</td>
<td>63</td>
<td>48</td>
<td>39</td>
<td>37</td>
</tr>
</tbody>
</table>
Global Ends Statement

Ensure all students, especially those with educational and/or socioeconomic challenges, have the skills and capabilities to be successful in the next stage of life.
Global Ends Statement

- Career Development
- Transferability
- College Readiness
- Institutional Excellence
- Student Success
- College Experience
Career Development

1. Basic skills completion
2. Degree completion and/or transfer-ready status
3. Alignment between degree offerings and workforce needs
4. Enrollment in targeted workforce programs
5. Increased corporate partnerships
6. Increased revenue from contract training
7. Increased community awareness of District programs
8. Increased student goal attainment
Transferability

1. Degree completion and/or transfer-ready status
2. Number of ATD programs approved by the state
3. Number of students completing ATD degree programs
4. Student transfer rate
5. Number of online courses offered
6. Enrollment in online courses
7. Proportion of student demographics to the surrounding community
College Readiness

1. Degree completion and/or transfer-ready status
2. Number of ATD programs approved by the state
3. Number of students completing ATD degree programs
4. Student transfer rate
5. Number of online courses offered
6. Enrollment in online courses
7. Proportion of student demographics to the surrounding community
Institutional Excellence

1. Employee productivity
2. Employee retention
3. Number of safety incidents on campuses
4. Employee satisfaction with work environment
5. Employee satisfaction with District services
6. Number of employee performance reviews completed
7. Institutional Learning Outcomes
8. Course productivity rates
Student Success

1. Persistence
2. Course completion
3. Basic skills completion
4. Student enrollment
5. Student term-to-term retention
6. Student persistence rate
7. 30 unit completion
8. Implementation of SSSP resources – Student Ed Plans and Degree Audit, orientations, assessments, etc., and reporting of related MIS data
College Experience

1. Employee and student satisfaction with campus safety
2. Student satisfaction with campus environment
3. Student engagement
4. Faculty and staff satisfaction with engagement
5. Student academic engagement