MT. SAN ANTONIO COLLEGE

2014-15 Adopted Budget

President's Message

For the fourth consecutive year, the Legislature passed and the Governor signed the State Budget on time. The 2014-15 State Budget is based on the Governor's more conservative forecast. The proposed State Budget continues to be very positive, focusing on education and the retirement of the debt. The State Budget includes a positive trigger that would reduce additional deferrals to schools and colleges.

This year, the overall State budget outcome is truly beneficial for community colleges. The majority of the funds are targeted to student access/growth, the elimination of deferrals, and the restoration and enhancement of categorical programs. The major highlights for the California Community Colleges in the 2014-15 State Budget are as follows:

- $140.4 million (2.75%) in Access, Growth/Restoration funding to help restore some of the FTES lost in recent years;
- $47.3 million (0.85%) Cost-of-Living Adjustment (COLA);
- $100 million for the Student Success and Support Program;
- $70 million for Student Equity Plans;
- $30 million for Disabled Student Programs and Services (DSPS);
- $498 million to reduce deferrals from $592 million to $94 million;
- $148 million in one-time funds for Scheduled Maintenance and Instructional Equipment;
- $50 million in one-time funds for the Economic and Workforce Development Program;
- $49.5 million to pay down mandates;
- $39.7 million for Proposition 39 energy efficiency activities;
- commencing in 2015-16, the enhanced noncredit Career Development and College Preparation (CDCP) rate will equal the credit rate; and

- a positive trigger that will further pay down deferrals during the year if the Proposition 98 guarantee is higher than estimated.

Fortunately, through planned actions, Mt. SAC has maintained a healthy fund balance (reserves). This fund balance, and the additional revenues approved in the 2014-15 State Budget, will enable the College to sustain programs and services for the 2014-15 fiscal year and will allow time to develop a plan for maintaining fiscal stability for the 2015-16 fiscal year and beyond.

Instead of an estimated $5,314,265 budget deficit that was projected for 2013-14, the fiscal year ended with a $1,981,514 surplus, which resulted in a $7,295,779 positive variance for the Unrestricted General Fund. This positive variance was increased mainly due to the 2012-13 Redevelopment Revenues backfill, the 2012-13 Structural Apportionment Deficit recovery, additional funds received for the 2012-13 Over Cap Growth, the preliminary 2013-14 Over Cap Growth, nonresident tuition revenue increases, a team effort of conserving budgets across the campus, and savings from vacant positions. However, the variance was largely decreased by the 2013-14 apportionment deficit as a result of the shortfall in property taxes and enrollment fee estimates, and the additional cost of course offerings to earn the 2013-14 growth. One major concern is the continuous apportionment deficits as a result of shortfalls in property taxes and enrollment fees. The State does not provide backfill for these deficits.

We continue to have an ongoing structural deficit with ongoing budgeted expenditures exceeding ongoing revenue due to built-in escalation factors such as step increases and operating expenditures. We are on our way to recovery, but 2013-14 was a year of having to grow and still not getting back to staffing and budget levels that could support this growth as it should be. The sunshine is breaking through, but we are not out of the woods yet. Therefore, our collaborative work to reduce expenditures, improve efficiencies, capture over-cap growth, and use increases in categorical programs wisely must continue in order to maintain Mt. SAC's fiscal health and stability.

The 2014-15 proposed budget reflects the Governor's recognition of the important role that community colleges play in providing access to quality, affordable higher education. This year's budget is based on achieving 2.75% in growth and includes the 0.85% cost-of-living adjustment. An increase in growth creates a demand for new facilities, staffing, and other budgetary challenges. To address facility needs and infrastructure, plans are underway to issue $105 million in new bonds in spring 2015. Two external factors will determine the success in reaching the $105 million issuance: the assessed value of property in our District and the interest rate in the money markets. We are cautiously optimistic that property values are on the rise. To qualify for lower interest rates in money markets, we need to show we have solid plans to cover our outstanding debt, the major component of which is our OPEB Trust. The College has reinstated the budget of $2.5 million to make the contribution to the OPEB Trust for 2014-15.

Included in the budget are ongoing unrestricted general fund revenues of $146,556,172, which were projected using information provided by the State Chancellor's Office. Ongoing unrestricted general fund expenditures are estimated at $153,207,508, leaving a projected ongoing budget deficit of $10,651,336.

The 2014-15 proposed budget includes an ongoing 1% salary increase and an ongoing $500 annual health and welfare increase for the Faculty, CSEA 262, CSEA 651, Management, Confidential, and Supervisory employees. In addition, if the College receives 2013-14 Over-Cap Growth, 15% of these funds will be used to provide a proportional health and welfare contribution of up to a maximum of $1,100 per fiscal year, retroactive to July 1, 2014.

The use of one-time funds (unassigned fund balance above the Board-mandated 10%), ongoing and one-time revenue increases, and ongoing and one-time expenditure reductions allows us to offset the current year estimated deficit. However, the increase of ongoing expenditures, which primarily caused the $10.7 million structural deficit, is ongoing, and our one-time funds are finite. Consequently, we will continue to work collectively to identify additional actions to reduce expenditures and increase revenue, developing a plan that will take us through the following two fiscal years. Fortunately, the State is on its way to recovery, and Mt. SAC will take this opportunity to continue growing, provide quality programs and services for students, and a fairly-compensated employment for our faculty and staff.

The 2014-15 proposed budget is not balanced – unrestricted general fund revenues remain over $10 million less than budgeted expenditures – but it still includes the 10% reserves mandated by Board policy. The College will continue to determine the best plan of action necessary to protect and maintain fiscal stability. You will notice the 2014-15 proposed budget continues to have an increased level of detail. This is in an effort to increase transparency, which will assist in developing a meaningful and productive dialogue among all constituencies and will serve Mt. SAC well as we search for solutions to help manage the budget.

As we begin a new academic year, we must re-dedicate ourselves to the Vision, Mission, and Core Values of the College. With all of the opportunities and challenges facing us, Mt. SAC continues to deliver quality programs and services to over 60,000 students. Mt. SAC's dedication to students, loyalty to our family colleagues, and pride in the "Mt. SAC Way" has sustained Mt. SAC as "The College of the Champions" dedicated to "Excellence and Distinction."

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College President/CEO
Mt. San Antonio College

MT. SAN ANTONIO COLLEGE

2014-15 Adopted Budget Overview

Title 5 of the California Code of Regulations requires that community college districts use budgets to monitor expenditures as part of sound fiscal management. The budget is also a management tool used to document and monitor the fiscal plan for the College. Prior to the end of the fiscal year, each California community college is required to prepare and submit a tentative budget for the Board of Trustees' approval. The College brought the tentative budget to the Board of Trustees for approval in June.

Revenues

The College receives revenue from a variety of sources. Each source may dictate the basis upon which the revenue is allocated or earned, how it may be spent, and the continuing availability of the revenue.

State revenue available to community colleges is dictated by Constitutional Amendments and enabling legislation. Proposition 98 provides specific procedures to determine a minimum guarantee for annual K-14 funding. The original legislation specifying a split between K-12 and community colleges, allocating approximately 11% to community colleges, which was enacted in 1988-89, has been suspended since 1992-93, with community colleges receiving much less than the statutory 11%. When the amount of funding, which would normally flow through to the community colleges is short (for whatever reason, but primarily due to a property tax or enrollment fee shortfall), our funding is "deficited." Contrary to what one might expect in the opposite circumstance, when there is a "surplus," colleges are not allowed to keep the additional property tax or enrollment fee revenues.

With the passage of Proposition 30 and the dissolution of the redevelopment agencies, the apportionment funding for community colleges is based on greater estimates. In the 2008-09 fiscal year, two-thirds of the apportionment was General Fund approved in the Budget Act. Since 2012-13, this ratio has changed to be one-third. The remaining two-thirds are based on estimates that may or may not hold. The revenues from Proposition 30 are held in the Education Protection Account (EPA). These revenues and the Redevelopment Agency revenues are components of districts' base apportionment. Similar to "Local Property Taxes", districts' State aid is reduced by one dollar for each dollar received from the EPA or Redevelopment Revenues.

Based on legal requirements and State projections of total revenues available in the coming year, the Legislature and the Governor ultimately determine an amount to be provided for community colleges. Projecting a college's revenue based on statewide allocations involves many dynamic factors and complications. Of significance is the concept of “prior period adjustments”, whereby a college does not know for certain what its revenue was for the prior fiscal year until February or March of the subsequent fiscal year. In the First Period Apportionment report (“P-1”), normally received in February, corrections made to the prior year may also modify the current year’s base revenue. What eventually happens depends upon not just Mt. SAC’s enrollment and State funds budgeted for community colleges, but also on the actual enrollment of all California Community Colleges.

Mt. SAC’s main source of revenue comes from a combination of property taxes, enrollment fees, and State apportionment, which equal Mt. SAC’s total computational revenue or total base apportionment allocation. The State Apportionment includes the funds as a result of the passage of Proposition 30. This proposition temporarily raises the sales and use tax by .25 until the end of 2016. It also raises the income tax annual earnings over $250,000 until the end of 2018.

Apportionment revenue is based on $4,636 per Credit FTES, $2,788 per Noncredit FTES, and $3,283 per Enhanced Noncredit Career Development and College Preparation (CDCP) FTES. Apportionment revenue has been budgeted at our estimated 2013-14 base allocation, plus $1,114,919 in a 0.85% cost-of-living adjustment. The 2013-14 estimated apportionment base includes $347,614 in 2012-13 Over Cap Growth, $1,813,906 in 2013-14 Growth, and $1,262,599 in preliminary 2013-14 Over Cap Growth. In addition, Nonresident Tuition has been increased by $600,000 to align with actual revenues received in 2013-14. The Lottery rate is estimated to increase from $126 to $128, which increases revenues by $204,250. Interest earnings have been increased by $50,000 as a result of the decrease in apportionment deferrals. Included in the proposed budget are ongoing unrestricted general fund revenues totaling $142,556,172, which is $5.1 million more than the total revenue budgeted for the 2013-14 Adopted Budget.

Expenditures

As a direct result of the continuously changing State revenue projections, our budget planning process has been significantly altered from past years. Most of the College’s expenditures are those with very little discretion such as salaries, benefits, utilities, and ongoing costs and commitments.

In the 2014-15 proposed budget, Faculty, CSEA 262, CSEA 651, Management, Confidential, and Supervisory employees will receive a 1% salary increase and $500 annually for health and welfare on an ongoing basis, totaling $1,650,910. In addition, if the College receives 2013-14 Over Cap Growth, 15% of these funds will be used to provide a proportional health and welfare contribution of up to a maximum of $1,100 per fiscal year, retroactive to July 1, 2014. The College received preliminary 2013-14 Over Cap Growth funds with the second principal apportionment in June 2014; therefore, a total of $407,197 has been assigned from the fund balance to fund this 15% proportional health and welfare contribution of up to a maximum of $1,100 per fiscal year. The 2013-14 Over Cap Growth will be recalculated in February 2015. At that time, the College will determine the exact amount that will be allocated for health and welfare. The last time employees received salary-negotiated increases was in the 2013-14 fiscal year.

Besides the $1,650,910 for the 1% salary increase and a $500 annual health and welfare increase described in the previous section, some of the most notable ongoing expenditure increases are: $1,479,880 in annual step-and-column salary progression along with the associated employer-paid contributions, $2,601,790 in the Class Schedule Increase of 1,037 FTES to earn the growth for 2013-14, and $382,861 in the State Teacher's Retirement System (STRS) employer contribution due to the increase in the rate from 8.25% to 8.88%. Some of the most significant budget decreases are $845,589 due to filling vacancies at a lower step/column and employer contribution adjustments, and $248,582 for the net decrease of three full-time faculty positions with the corresponding backfill. The total ongoing expenditures for the Unrestricted General Fund are estimated at $153,207,508, leaving a projected ongoing deficit of $10,651,336. The College must continue to work together to reduce the ongoing structural budget deficit.

The College has ended the 2013-14 fiscal year with a $30.2 million fund balance in the Unrestricted General Fund, which represents a 20.64% fund balance. The 2013-14 Adopted Budget projected the fund balance to be $19.7 million. The $10.5 million increase is primarily due to increases in revenues for Growth, the 2012-13 Redevelopment Revenues backfill, the recovery of the 2012-13 Structural Apportionment Deficit, Nonresident Tuition revenue, Revenue-Generated Accounts, savings in vacant positions and department budgets, and decreases in the 2013-14 Apportionment Deficit and the additional cost of course offerings to earn the 2013-14 Growth. We are fortunate to continue to end the fiscal year with a strong fund balance (reserves). Mt. SAC's history of healthy fund balances (reserves) has allowed the College to continue the many outstanding programs and services for which it is known for, while allowing for careful consideration of budget plans for the 2014-15 fiscal year and beyond.

One-Time Revenues and Expenditures

The one-time budgeted revenue and expenditures net to an increase in revenues of $31,478. Revenues include an increase of $900,000 for the 2013-14 Apportionment Deficit in enrollment fees and property taxes, a decrease of $992,914 for the 2014-15 Apportionment Deficit, and an increase of $812,089 for the Mandated Cost Block Grant. The 2014-15 Growth is estimated at $3,587,437, and it is not included in the 2014-15 Adopted Budget, as these revenues will change multiple times during the year. The primary increases in one-time expenditures are $2,332,579 in carryover budgets from 2013-14, $488,253 in Positions and Operational Expenses funded with 2014-15 Anticipated Growth, and $2,408,703 in cost increases of the 2014-15 course offerings to earn the 2014-15 Growth. The Contribution to the OPEB Trust for 2014-15 is estimated at $3,021,140. After two years of deferring this contribution, the College reinstated the budget of $2,500,000 to make the contribution for 2014-15.

The College will not make the contribution for the balance of $521,140, which will be used as one-time budget savings. The retiree medical premiums of $3,881,979 will be paid from the OPEB Trust. The result is $4,403,119 of a total one-time budget savings comprised of the balance of the OPEB Trust contribution and the retirees' health premiums, which contributes to conserve Mt. SAC's fund balance.

<u>Revenue-Generated Accounts</u>

The fund balance increased from to $2,720,704 to $3,245,417. This carryover fund balance has been budgeted in the 2014-15 fiscal year.