MT. SAN ANTONIO COLLEGE

2017-18 Adopted Budget

President's Message

As expected, the Governor signed the 2017-18 State Budget on June 27, 2017. The 2017-18 Budget Act continues to increase the State's Rainy Day Fund to pay down accumulated debts and liabilities to counter the potential fiscal impact of federal policy changes on California and the potential end of an economic expansion that has surpassed historical averages. The Governor's key priorities are centered in investing in education, counteracting the effects of poverty, and improving the State's streets, roads, and transportation infrastructure.

The 2017-18 State Budget includes $74.5 billion in Proposition 98 funding. This is an increase of $3.1 billion over the revised 2016-17 funding for K-12 and community colleges. The State Budget includes important investments for community colleges and shows strong commitment to innovation, completion, expanded financial aid opportunities for low-income students who attend college full-time, and guided pathways grants to achieve better outcomes by organizing academic pathways in a way that promotes better course-taking decisions. The most significant revenue increases for community colleges consist of:

- $97.6 million for (1.56%) Cost-of-Living Adjustment (COLA);
- $57.8 million for (1%) in Growth funding;
- $183.6 million to increase the ongoing Base Allocation;
- $31.7 million to backfill Property Taxes;
- $150 million in one-time funds for the Guided Pathways Program;
- $25 million one-time for the Community College Completion Grants;
- $25 million for the Full-Time Student Success Grant;
- $10 million for the Online Education Initiative;
- $76.8 million one-time for Physical Plant and Instructional Support;
- $38.9 million for this year's Proposition 39 Clean Energy Job Creation Fund;
- $5.7 million for cost-of-living adjustments to CalWORKs, EOPS, DSPS, Apprenticeship, and Child Care Tax Bailout programs;
- $5 million for part-time Faculty office hours;
- $20 million for one-time innovation awards; and
- $12 million to develop and enhance Veterans' Resource Centers, $7 million is one-time.

The College ended the 2016-17 fiscal year with a $2,920,440 surplus and a $43,857,311 fund balance. This is an increase to the fund balance of $23,100,524 when compared to the 2016-17 Adopted Budget fund balance of $20,756,787. The difference is the increase of unbudgeted revenues for $4,282,939, unexpended expenditure budgets for $10,971,955, and the fund balance of the Revenue-Generated accounts for $7,845,630.

The most significant unbudgeted revenues are comprised of increases in the 2015-16 Growth for $1,007,004; Apportionment Prior Year Adjustments for Faculty Hiring, Increase to the Base, and Property Taxes in Vehicle License Fees for $750,534; 2016-17 Statewide Apportionment Deficit that did not materialize, resulting in $806,056 one-time apportionment revenues; and $1,645,637 for Nonresident Tuition, Interest, and Miscellaneous Revenues.

The $10,971,955 Unexpended Expenditure Budgets is primarily due to unexpended budgets for hourly faculty, vacancies for budgeted classified and management staff replacements, and committed operating expenses that will carry over to the fiscal year 2017-18. A large amount is due to the New Resources Allocation Phases 5 and 6, approved by President's Cabinet on July 26, 2016, November 1, 2016, and March 21, 2017. These budgets were increased on an ongoing and one-time basis. As of June 30, 2017, budgets were not expended due to the following factors: 1) extended time needed to implement plans; 2) operational expenditures required formal bids; and 3) timelines to complete projects overlapped fiscal years.

The Revenue-Generated accounts ended the 2016-17 fiscal year with a designated fund balance of $7,845,630 that will be carried over to the 2017-18 fiscal year.

We are fortunate to continue to end the fiscal year with a strong fund balance (reserves) due to the fiscal prudence of the College. This fund balance, along with the revenues approved in the 2017-18 State budget, will enable the College to sustain programs and services for the new fiscal year. Mt. SAC's history of healthy fund balances (reserves) and the efficient use of our resources has allowed the College to serve our students and community at a high level, while allowing for careful consideration of budget plans for the 2018-19 fiscal year and beyond.

Community colleges have a favorable budget year, it is important to remember that colleges continue to have major increases in operating expenses primarily due to increases in rates for the PERS and STRS pension obligations in the coming years. While employer pension obligations rate increases totaled $317 million from 2013-14 to 2017-18, the Legislative Analyst's Office expects this to reach $902 million through 2024-25. To hedge these future obligations, Mt. SAC established the Section 115 Mt. San Antonio College STRS/PERS irrevocable governmental trust and has deposited $8 million for employer's pension obligations. The College plans to contribute an additional $2 million in the 2017-18 fiscal year. The College has also solid plans to cover our OPEB Trust outstanding debt, and the budget includes an ongoing contribution of $2.5 million.

Another concern is shortfalls in State revenues because these revenues considerably rely on State income tax collections from capital gains, which are highly volatile. Given these circumstances, the College needs to strategically plan for the challenges ahead. Therefore, our collaborative work to improve efficiencies, capture growth, invest funds to reduce operating costs, and use revenue increases wisely must continue in order to maintain Mt. SAC's fiscal health and stability.

This year's budget is based on restoring the decline in FTES and achieving 1% growth. The budget provides increases for staffing, operating expenses, and instructional capacity that will enable the College to meet the increasing demand for student enrollment and to earn the maximum growth available. As Mt. SAC looks to grow its student population, the need for parking, energy, and new facilities is clear. In April 2017, the College issued $90 million in general obligation bonds to complete building in the Business and Computer Technology Complex that will open for classes in Spring 2018. Part of these bond funds will also be used for the East Athletic Complex which includes the stadium and surrounding facilities.

We continue to have a great partnership with Foothill Transit that provides bus ridership for our students. Last March, Mt. SAC agreed on a MOU with Foothill Transit for a Bus Transit Center on campus. The Solar project is still underway with construction scheduled after the approval of the environmental impact report, which will be presented to the Board of Trustees in October. Through involvement of the Board of Trustees, the community, and the staff, we are in the process of culminating the Educational and Facilities Master Plan to build momentum for our next facilities bond campaign that will provide facilities funding for our students and community.

Included in the budget are ongoing Unrestricted General Fund revenues of $182,374,487, which were projected using information provided by the State Chancellor's Office. Ongoing Unrestricted General Fund expenditures are estimated at $183,476,155, leaving a projected ongoing deficit of $1,101,668. However, the prior year actuals show that the College consistently performs better than what is budgeted. This is due to the conservative revenue assumptions and underspending that occurs throughout the fiscal year.

Mt. SAC's real strength is its people. Increasing employee compensation is one of my personal goals. As such, the budget includes a $3,164,434 increase of 2% applied to salaries and annual health and welfare allocation for all employee groups. This increase has been approved by the Board of Trustees for the faculty, and is pending Board approval for CSEA 262, CSEA 651, management, and confidential employee groups. The College has reached agreements with the Management and Confidential groups and is very close to reaching agreements with the CSEA 262 and CSEA 651. It is expected that these agreements will be approved by the Board of Trustees on September 13, 2017, and October 11, 2017.

This budget includes the 10% reserves mandated by Board Policy. The College will continue working collectively to protect and maintain fiscal stability by developing a strategic plan that will take us through the following two fiscal years. Fortunately, the State has provided revenues to increase the apportionment base, cost-of-living adjustment, and increased growth funding opportunities. Mt. SAC will take this opportunity to continue growing, provide quality programs and services for students, and fair compensation for our faculty and staff. The 2017-18 proposed budget continues to have an increased level of detail. This is in an effort to maintain and 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.

We begin a new academic year with the excellent news of a full seven years of accreditation! We continue to dedicate ourselves to the Vision, Mission, and Core Values of the College. Mt. SAC continues to deliver quality programs and services to those who live and work in our region. This would not be possible without the support of all of you – community, Board, faculty, staff, and management – and our students, whose lives we transform.

William T. Scroggins, Ph.D.
President & CEO
Mt. San Antonio College

MT. SAN ANTONIO COLLEGE

2017-18 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.

Ending Fund Balance

The College ended the 2016-17 fiscal year with a $2,920,440 surplus and a $43,857,311 fund balance. This is an increase to the fund balance of $23,100,524 when compared to the 2016-17 Adopted Budget fund balance of $20,756,787. The difference is the increases of unbudgeted revenues for $4,282,939, unexpended expenditure budgets for $10,971,955, and the fund balance of the Revenue-Generated accounts for $7,845,630.

The most significant unbudgeted revenues are comprised of increases in the 2015-16 Growth for $1,007,004; Apportionment Prior Year Adjustments for Faculty Hiring, Increase to the Base, and Property Taxes in Vehicle License Fees for $750,534; 2016-17 Statewide Apportionment Deficit that did not materialize resulting in $806,056 one-time apportionment revenues; and $1,645,637 for Nonresident Tuition, Interest, and Miscellaneous Revenues.

The $10,971,955 Unexpended Expenditure Budgets is primarily due to unexpended budgets for hourly faculty, vacancies for classified and management staff, and committed operating expenses that will carry over to the fiscal year 2017-18. A large amount is due to the New Resources Allocation Phases 5 and 6, approved by President's Cabinet on July 26, 2016, November 1, 2016, and March 21, 2017. These budgets were increased on an ongoing and one-time basis. Some of these budgets were not expensed as of June 30, 2017, because the implementation of the plans requires a longer processing time. Some are for operational expenses that require a formal bidding process, projects to be completed in more than one year, or positions that require the development of new job descriptions.

The Revenue-Generated accounts ended the 2016-17 fiscal year with a designated fund balance of $7,845,630 that will be carried over to the 2017-18 fiscal year.

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, while allowing for careful consideration of budget plans for the 2017-18 fiscal year and beyond.

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, enacted in 1988-89, specifying a split between K-12 and community colleges, allocating approximately 11% to community colleges, 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.

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, State apportionment, and the Education Protection Account (EPA), which equals Mt. SAC’s total computational revenue or total base apportionment allocation. Districts’ State aid is reduced by one dollar for each dollar received from the EPA, local property taxes, and enrollment fees. The EPA was created in November 2012 by Proposition 30 and has been amended with Proposition 55 on November 2016. Proposition 55 extents the temporary personal income tax increases enacted in 2012 for twelve years or until December 2030.

In 2017-18, colleges will receive growth funding based on the growth formula as mandated by SB 860. The primary factors of this growth formula are: 1) The number of people within a district’s boundaries who do not have a college degree; and 2) The number of people who are unemployed, have limited English skills, who are in poverty, or who exhibit other signs of being disadvantaged, as determined by the Chancellor’s Office, within a community college district’s boundaries.

Apportionment revenues are included at $5,151 for Credit and CDCP (Enhanced Noncredit Career Development and College Preparation) FTES and $3,098 for Noncredit FTES. The Apportionment revenues also include a 1.56% cost-of-living adjustment of $2,493,309 and an increase to the Base Allocation of $4,546,089. The College declined 374 FTES from 2015-16 to the 2016-17 fiscal year. The budget includes the restoration of these FTES with a net Stability/Restoration Adjustment of $60,689.

Other ongoing revenues have also fluctuated from year to year. These changes mainly consist of a decrease of $6,992 in Lottery revenues mainly as a result of the decrease in FTES from 32,420 to 31,928, an increase of $150,000 in Interest due to the elimination of the apportionment deferrals, and an increase of $275,000 in Nonresident Tuition Fees to align with actual revenues received in 2016-17. The total Ongoing Revenue in the Unrestricted General Fund is $182,374,487, which is $8 million more than the total revenue budgeted for the 2016-17 Adopted Budget.

Expenditures

Most of the College’s expenditures are those with very little discretion such as salaries, benefits, utilities, and ongoing costs and commitments.

The most notable ongoing expenditure increases are comprised of: $1,369,957 in annual step-and-column salary progression, along with the associated employer-paid contributions; $1,426,913 in the State Teacher's Retirement System (STRS) employer contribution, due to the increase in the rate from 12.58% to 14.43%; $654,050 in Public Employee Retirement System (PERS) employer contribution, as a result of the increase in rate from 13.88% to 15.53%; $1,352,404 in Management and Classified Positions previously approved to be funded with one-time funds and positions funded through the New Resources Allocation Requests Phases 5 and 6; $476,652 in Hourly Faculty Budget to restore FTES to arrive to the apportionment funded base of 2015-16; and $923,898 for the 2017-18 New Resources Allocation Requests Phase 7 as approved by President's Cabinet on July 11, 2017. The Ongoing Budget includes a $2,500,000 contribution to the OPEB Trust as approved by the Board of Trustees on May 27, 2015.

The ongoing expenditures also include a 2% increase applied to salaries and the annual health and welfare allocation for all employee groups for $3,164,434. This increase has been approved by the Board of Trustees for faculty, and it is pending Board approval for CSEA 262, CSEA 651, management, and confidential employee groups. The total ongoing expenditures for the Unrestricted General Fund increased from the 2016-17 Adopted Budget by $9 million.

<u>Ongoing Deficit</u>

Included in the budget are ongoing Unrestricted General Fund revenues of $182,374,487 and ongoing expenditures estimated at $183,476,155, leaving a projected ongoing deficit of $1,101,668. However, the College actual results have consistently performed better than budgeted, due to conservative revenue assumptions and underspending that occurs throughout the fiscal year. The actual results for the last three years were: minor Ongoing Deficit of $342,800 in fiscal year 2014-15, Ongoing Surplus of $8,555,505 in 2015-16, and Ongoing Surplus of $6,643,870 in 2016-17.

<u>One-Time Revenues and Expenditures</u>

The proposed budget includes a total of $12,424,756 between a prior year fund balance and one-time revenues to fund one-time expenditures for the 2017-18 fiscal year. The prior year fund balance, which becomes the current year beginning fund balance, totals $13,269,552. The one-time revenues include a decrease of $844,796 in the 2017-18 Apportionment Deficit. The 2017-18 Growth is estimated at $1,352,240, and is not included in the 2017-18 Adopted Budget as these revenues will change multiple times during the year and the final number will be known in February or March of 2019.

The proposed budget also includes one-time expenditures for a total of $12,424,756, which consists of $2,842,370 in carryover budgets from 2016-17; $5,599,225 in commitments for the New Resources Allocation Requests Phases 1 to 8; $2,000,000 for the Mt. San Antonio College STRS/PERS Trust contribution; $143,981 for Immediate Needs Requests; $154,250 for the Mt. SAC Auxiliary Services Unfunded PERS Liability; $275,000 to support the International Student Program; $250,000 for the Computer Replacement Program; $486,454 for Faculty Positions; $403,776 for Hourly Faculty to earn the 2017-18 Growth; and $391,548 in One-Time Savings from Vacant Positions.

<u>Revenue-Generated Accounts</u>

The Revenue-Generated accounts in the Unrestricted General Fund ended with a fund balance of $7,845,630 for the 2016-17 fiscal year; this fund balance, along with the 2017-18 estimated revenues of $3,214,858, are the source of funding for the budgeted expenditures of $11,060,488. Revenue-Generated Accounts include funds designated for College Programs.