

ACBO INSTITUTE I

March 2, 2017

BUDGET BUILDING PROCESS

I. Managing Budget Issues

II. The Budget Committee

III. Budget Development

MANAGING BUDGET ISSUES

- **Environmental Scanning**
- **Issues Management**
- **Communication**

PROP 30

WHO KNOWS?

PROP 30

- How Much -

- The EPA
 - \$855m estimated for 2012-2013
 - ✓ Or Not?
 - Moderate increases projected thereafter
 - ✓ May or may not materialize
 - ✓ Will flow in tandem with general State revenues
 - Sales/Use Taxes:
 - ✓ Affects five (5) fiscal years
 - ✓ 2012-2013 and 2016-2017 are half years
 - PIT:
 - ✓ Affects seven (7) fiscal years
 - ✓ FY 2018-2019 is half-year
 - ✓ Retroactive to January 1, 2012

PROP 30

- How Much -

- How good are the initial estimates?
 - ✓ FY 2012-2013: 1 ½ years PIT and ½ year Sales/Use Taxes

PROP 30

- Timing -

- Not a windfall, merely a stabilizer
- Limited Duration
 - Sales/Use Taxes . . . 4 years
✓ (CY 2013 through 2016)
 - Personal Income Tax (\$250K) . . . 7 years
(CY 2012 – 2018)

PROP 30

- Timing -

- When will we know?
 - Estimated in June of each year
 - ✓ June 20 in 2013
 - ✓ January/May each year
 - Quarterly payments based on estimated receipts
 - Final settle-up: a two year lag
 - ✓ Last one June 30, 2021
 - ✓ Interim Settle-Ups?
 - Could get more, or less, at settle-up

PROP 30

- Use -

- To be determined annually by the State
 - Reasonable bets:
 - ✓ Deferral Buy-downs
 - ✓ Student Success
 - COLA and Growth/Restoration?
 - ✓ FY 2012-2013: \$210 million
- One-time funding on an annual basis

PROP 30

- Use -

- Categorical Program (Unrestricted or Restricted)?
- If Unrestricted, 50% law implications
- ACBO Board Meeting, 12/07/12

PROP 30

- Use -

- Revenue Components
 - Prop 30
 - ✓ Sales/Use Tax Revenue
 - ✓ PIT Revenue
 - ✓ Need to know
 - ✓ State General Revenues

PROP 30

- Coup De Gracie -

- FY 2012-2013 Prop 30 Revenue – An Anomaly
- FY 2013-2014 through FY 2015-2016 (3 years):
 - PIT and Sales/Use Taxes both in place for 12 months
- FY 2016-2017 – Only 6 months of Sales/Use Tax Revenue
 - Teetering on the CCC's Fiscal Cliff

PROP 30

- Coup De Gracie -

- FY 2017-2018 – No Sales/Use Tax Revenue
 - Sliding down the Cliff
- FY 2018-2019 – Only 6 months of PIT
 - Sliding speed increases
- FY 2019-2020 – Our Wile E. Coyote moment

THE BUDGET DEVELOPMENT COMMITTEE

1. Facilitates assurance that budget and planning are indeed linked through the review and discussion of budget objectives and tactics and their relationship college goals and strategic initiatives. This also calls for the establishment of a link between the budget committee and the college's strategic planning committee.
2. Reviews and discusses the annual budget calendar and advises constituencies as appropriate.
3. Provides for constituent review and discussion of budget-related policies, procedures and practices.
4. Receives information pertinent to the college budget, especially budget development, and college budget status, and members share same with their respective constituencies.

5. Reviews and discusses the budget reconciliation and postmortem. Implications of "budget news" can also be discussed and evaluated.

6. Provides a forum akin to a think tank regarding the above enumerated matters. In this sense, the institution as a whole benefits by bringing together a group composed of members with widely varying educational and experiential backgrounds, but with a singular focus, that being the institution and the students it serves. This is especially important in the development of budget scenarios, alternative budget strategies and budget projections.

Budget Committee Charter

Defines the role, scope and purpose of the committee:

- What is it to do?

- What isn't it to do?

- How does it fit within the college's organizational/committee/shared governance structure?
- What outputs are desired?
- To whom would the committee report?
- Is it merely advisory, or should it make recommendations?
- **Give the committee something important to do.** It shouldn't be just a meet and receive (information) group.

Options: Budget, planning and/or policy development?

LANGUAGE MATTERS!! The charter should be clear and concise.

Policy and/or procedure for the consideration of committee change.

Committee composition and size:

- Blend institutional functions, organizational fit and internal constituencies
- 10-15 members

Rules of the Game:

- Appointments
- Term Length
- Removal
- Committee Chair
- Committee Actions (voting or consensus)
- Documentation (agendas, minutes, websites, etc.)
- Committee as a Team (mutual respect, nothing personal, passionate vs. heated debate)
- Training (members and Chair, avoiding the Trivial Trail and getting lost in the weeds, the danger of the Slippery Slope)

BUILDING A BUDGET

- **Budget Development Model vs. Budget Allocation Model**
- **Know Your College**
- **Know Your Team**
- **Know the Key Players**
- **Budget Principles**
- **Budget Development Model**

BUDGET DEVELOPMENT MODEL

PRINCIPLES

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

BUDGET DEVELOPMENT MODEL

AN OVERVIEW

A. Budget Development Calendar

- Release calendar in January
- In broad form, with a more detailed “nuts and bolts” Business Services calendar released in March/April
- Could assume the “Tentative Budget Proposal” as essentially a “continuing resolution” whereby spending authority on July 1 is established (June Board action)

B. The Budget Projection

- Provides the major details of the budget proposal for the upcoming fiscal year
- Initial development begins late November/early December and is then refined for presentation shortly after release of the Governor’s “January Budget Proposal.”
- Consider budget scenarios

- Second major iteration is prepared for presentation (to___) shortly after release of the Governor’s “May Revise” budget
- Third major iteration developed after the State Budget Act is enacted
- Final major iteration is presented as a part of the College’s “Final Budget Proposal”
- The “Budget Projection” can be updated more frequently if circumstance so dictate

C. The Final Budget

Presented for Board action as a part of the College budget on or before
September 15

D. The Budget Reconciliation and Postmortem

- Increases transparency
- Addresses the question of “how did we do?”
- Would be used in presentations of the “Final Budget” to the College community

E. Strategic Financial Plan

Update (i.e. roll forward one year) the Strategic Financial Plan during the fall semester based on:

1. Results of the Budget Reconciliation and Postmortem
2. The final (Board-approved) budget for the new fiscal year
3. Strategic Planning/Program Review updates
4. Begin new budget development process (late November/early December)

Note: Major focus on the Unrestricted General Fund, the major operating fund of the College. However, it would be judicious to apply “Budget Projection,” “Budget Reconciliation and Postmortem” to other funds for planning, decision making and program evaluation purposes.

BUDGET DEVELOPMENT CALENDAR

AN OUTLINE*

In the Current Fiscal Year

I. November/December:

- Draft initial budget projection for the next budget year.

II. January:

- A. Governor's Initial (January) Budget Proposal is released on or about January 10.
- B. Revise and release initial budget projection and budget assumptions to college community (Iteration 1).
- C. Develop and release Budget Development Calendar (broad form).
- D. Board approves nonresident tuition rate.

III. February:

- A. First Principal Apportionment (P1) Report is released by the State Chancellor's Office.
- B. Adjust initial projection for budget year as necessitated by P1.

IV. March/April:

- A. Develop and release "nuts and bolts" budget development calendar, including year-end closing instructions, to business office staff and others as appropriate.
- B. Update and release revised budget projection(s) as necessary.

V. May:

- A. Governor's "May Revise" Budget Proposal is released.
- B. Update and release Budget projection (Iteration 2).
- C. Develop Tentative Budget Proposal.
- D. The State Chancellor's Office issues information relative to the annual Gann Limit calculation.

VI. June:

- A. State Budget is enacted (hopefully).
- B. The Second Principal Apportionment (P2) Report is released by the State Chancellor's Office.
- C. Tentative Budget Proposal for the coming fiscal year, and the Gann Limit calculation per Government Code Section 7910, are presented to the Board of Trustees.
- D. The budget projection is updated and released (Iteration 3).

Now in the Budget Fiscal Year

VII. July/August:

- A. Year-end closing.
- B. State Budget Workshop is held, and the Advance Apportionment is released by the State Chancellor's Office.
- C. Final budget projection is prepared and released (Iteration 4).
- D. The Final Budget Proposal is prepared.

VIII. September:

- The Final Budget Proposal must be presented to the Board of Trustees on or before September 15.

IX. October:

- The Budget Reconciliation, Budget Post-Mortem and “311” reports are presented.

X. November:

- It begins...again.

*This calendar outlines **key events** (i.e. **broad form**) that should occur as a budget is developed. There is no one “right” calendar. Each community college district **must find its own way**, as each has its **own unique mix** of players, processes, culture, history, and etcetera. Thus, a particular district may have a more abbreviated or more detailed “broad form” Budget Development Calendar. Additionally, although not noted in the above outline, public notice, review and hearing dates are statutorily mandated and should be referenced in the Calendar.

THE BUDGET PROJECTION

PURPOSES

- Links budget to program review and strategic planning
- Tactical in nature
- Identifies budget opportunities, issues and constraints
- Provides for consideration of alternative scenarios
- Informs College constituencies about budget status and outlook
- Serves as a guide for decision making
- Initial development begins late November/early December and is then refined for presentation shortly after release of the Governor's "January Budget Proposal."
- Second major iteration is prepared for presentation (to___) shortly after release of the Governor's "May Revise" budget

- Third major iteration developed after the State Budget Act is enacted
- Final major iteration is presented as a part of the College's "Final Budget Proposal"
- The "Budget Projection" can also be updated more frequently if circumstance so dictate

BUDGET DEVELOPMENT MODEL
THE BUDGET PROJECTION
TOTAL AVAILABLE FUNDS (TAF) ANALYSIS

- The TAF provides a **quick snapshot of the District's budget at any stage of budget development.**

- With just a **handful of key numbers**, all on one page, it **communicates** to all the District's **current budget status**, hence providing a broad context for budget deliberations.

- With **the virtue of simplicity**, it also provides a way to **communicate important information about the budget...in particular the unrestricted general fund budget...**to non-budgeteers as well as those more conversant with the budgetary arts.

TOTAL AVAILABLE FUNDS

Beginning Balance	\$10,000,000
Add: Projected Revenues	<u>90,000,000</u>
Total Available Funds	\$100,000,000
Less: Fund Balance Target	<u>12,000,000</u>
Amount Available for Spending	\$88,000,000
Projected Budget Base	<u>85,000,000</u>
Projected Surplus/(Shortfall)	<u>\$3,000,000</u>

(Note 1: It is helpful if the District has a Board Policy stipulating that a deficit spending budget cannot be adopted.)

(Note 2: If a district's budget is negatively out of balance by 10% or more, then a serious financial situation exists. How serious will depend on other factors at the particular district. Despite other factors, though, 10% is effectively a red line one does not wish to cross.)

A few observations:

1. The numbers will change throughout the budget development cycle, as more of the unknown becomes known...**the bane of budgeteers**. **THE NUMBERS WILL CHANGE!!** (In fact, even in the final budget, all numbers are essentially just the latest, greatest estimates.)

2. The numbers showing in this analysis are **simply numbers**, but they're not what's important. One frequently finds oneself engaged in **great debates** about a given number. However, any number is merely the **product of the assumptions** which underlie it.
 - a. Where **the real action** lies.

 - b. Set forth clearly and succinctly.

 - c. **If assumptions change, the numbers must change.**

 - d. If folks understand the assumptions, there should be little or no quibbling about a number. **Debate the assumptions.**

 - e. If an institution has the wherewithal to change a particular assumption to its advantage, then by all means, **it should do so.**

3. The TAF methodology recognizes upfront that the **future of the institution** must be protected at all cost. It does this by showing that the **first allocation from “Total Available Funds” is the establishment of the “Fund Balance Target.” That number is equal to the reserve requirement** established, hopefully, by **Board Policy**. This allocation must come before consideration of spending matters, **if a District is serious** about maintaining a strong fiscal position.

4. **In the case of a deficit**, the District now has been advised, relatively **early on** in the budget game, that action is required ASAP.

BUDGET DEVELOPMENT MODEL

REVENUES

- **Revenues are a constantly moving target.**
- **Periodic revisions of a College's state revenue budget (e.g. P1, P2, R1, etcetera)**
- **Unrestricted general fund, the major operating fund, heavily reliant on State funding...93-95% from State...the fluid nature of the revenue picture is a big deal.**
- **The Funding Bucket and the Funding Line...the District's and the State's**
- **New variables can be introduced in filling the bucket. Three to consider:**
 - Prop 30 (55); Redevelopment; Student Success Initiative**
- **Funding is FTES-driven...SB 361: FTES and Basic Allocations**
- **CBO role**

BUDGET DEVELOPMENT MODEL

EXPENDITURES

Budget Base

Typically the approved budget for the current fiscal year, especially in the initial budget projection. As time moves along, the approved budget should give way to estimates of actual expenditures at year end.

Add Base "Operating Budget" Adjustments:

It should be observed that these adjustments could be negative and thus reduce a given expenditure item. This would occur if resources are being reallocated, reduced or eliminated.

Compensation Adjustments:

Step and Column (Equivalent to ____% comp increase)

Negotiated Salary Increases

Other Salary Adjustments (Identify separately any significant adjustments)

Employee Benefits:

Health and Welfare

PERS (Employer)

STRS (Employer)

Workers Comp

Other (Identify separately any significant items)

Net Compensation Adjustments

Position Adjustments (e.g. reclass, .75 position upped to 1.0 FTE, etc.)

Board Elections (every other year—a strategy?)

Utilities, Base Increase

Contracts/Agreements, Annual Increase (significant items only...significance in the amount and/or percentage increase, as well as items that may be important to note because of their nature, fiscal consequences for the future, etc.)

Known New Contracts (same comment as above)

Supplies Adjustment

New Facility O & M Costs (The College should establish agreed-upon standards for the funding of facility-related costs other than utilities. Such standards are also important in strategic financial planning.)

Identify Separately Any Other Adjustments of Significance

All Other Cost Increases (an arguable category and could be handled via something like a “a 1.0% increase in all other Object Codes is assumed”)

Subtotal, Base “Operating Budget” Adjustments

Add Base “Capital Outlay” Adjustments:

New Equipment

Equipment Replacement

Scheduled Maintenance

Subtotal, Base "Capital Outlay" Adjustments

Total Base Budget Adjustments

ADJUSTED BASE EXPENDITURES, BUDGET YEAR

This amount would be the sum of the current year base expenditure budget plus the adjustments included above.

ADD:

Strategic Initiatives*

Program Review*

Other Adjustments**

TOTAL PROJECTED EXPENDITURE BUDGET

BUDGET DEVELOPMENT MODEL

THE FINAL BUDGET PROPOSAL

- **Communicate**
- **The Final Budget Document and the Presentation Thereof**
- **Look at other CCDs**
- **Keep it simple and focused on key variables and assumptions**
- **Use Visual Aids**
- **Judicious use of humor**

- Remember, too many numbers cause glazed eye syndrome
- Mission...the Future; Budget Year Risks, Goals, Targets and Priorities
- The Final Budget Proposal is a **BIG DEAL!!** **BE PREPARED!!**

BUDGET RECONCILIATION AND POSTMORTEM

- **Reconciles the prior year budget with actual results in broad (e.g. major object code) form (essentially a variance analysis)**
- **Reviews the “Budget Reconcilement” in terms of results, variances and lessons learned**
- **Reviews the qualitative results and outcomes of the budget plan in terms of enrollment management, student success, strategic initiatives, etcetera**
- **Provides for assessment of assumptions used in building the prior year budget**
- **Informs College strategic planning and future budget building**

- **Results could be used in program review and management evaluation**
- **Provides the basis for the College's "Annual Report" (discretionary)**
- **Could be used in presentations of the "Final Budget" to the College community**
- **Can be conducted at various levels of detail depending on institutional need**