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Los Rios Community College District Budgeting Principles and Formulas

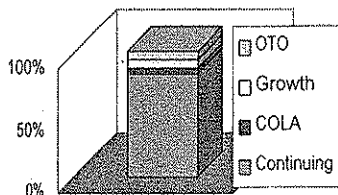
OVERVIEW

The purpose of this document is to present an overview of the basic principles used in the development of the District's budget. The District's budget process has the following objectives:

- ▶ to be responsive to the District/Colleges' planning process and related goals and objectives
- ▶ to address any current or future emphases directed by the Governing Board;
- ▶ to maximize access and services for students through the efficient utilization of the District's resources;
- ▶ to fund mandates or new costs imposed upon the District;
- ▶ to balance the distribution across District-wide needs;
- ▶ to maintain the District's conservative fiscal practices

A key element in the development of the budget is ensuring that commitments are matched against the supporting resource. Community college funding can be categorized broadly as general purpose and categorical. This document will not address categorical funds other than to state that the District exercises caution when making ongoing commitments against categorical funds based upon the funding terms and conditions. For general purpose funds, the important funding source distinction is between continuing (ongoing) and one-time-only resources. The nature of the revenue establishes or limits the type of expenditure that can be funded.

Focusing on general purpose, the district makes ongoing commitments against continuing funds. Each year the total commitment of continuing funding becomes the base appropriation level for the following year. These types of appropriations include regular positions and associated benefits, facility and equipment leases, utility and other operational expenditures required for the operation of the District. The level of revenues required to fund this level of appropriations is referred to as the District's base revenues. These are revenues that are reasonably expected to continue and consist primarily of State general apportionment, property tax revenues and enrollment fees. These three sources are also known as Program-based Funding. Other revenues sources supporting continuing costs are lottery, international and nonresident tuition, and interest income. However, the annual level of revenue for these sources is less certain than program based funding so the District has established a base level for each. Revenues above the base level are treated as one-time-only.



Once a resource has been directed toward a continuing cost, the budgeting for that resource becomes routine. The area where the most emphasis in budget development occurs then is on new revenues. New revenues can be either continuing or one-time-only in nature. Budget development focuses on projecting the level and nature of new revenues. Then, using established formulas the new resources are distributed to either support compensation or

operational costs. Once the initial distribution occurs, additional formulas may be applied to further allocate the funds.

NEW RESOURCES - CONTINUING

New resources are those defined as above the base level for the current year. The two primary sources of new continuing funds are COLA and Growth. COLA is an acronym for Cost of Living Adjustment. The annual State budget usually includes a COLA line item recognizing that maintaining even the base level of operations increases each year simply due to price increases associated with the procurement of goods and services including wage and benefit related costs. The COLA is stated as a percentage and the District's program based funding level is improved by that percentage increase without regard to any other requirements.

Growth funds are another primary funding component in the annual State budget. Growth funds are provided to compensate districts for the costs to grow as measured by the increase in the number of instructional hours provided to students. Growth funds are limited. Each year, districts receive a growth rate currently based upon the change in adult population and number of high school graduates in its service area. These two factors are blended and become the funded rate. So a district with a base level of 40,000 full-time-equivalent students (FTES) with a 5% growth rate, could be funded for serving 42,000 students or growth of 2,000 FTES. There are other factors that can increase the funded rate, as well as factors that limit whether a district will receive its full funded level even if achieved. Those will not be discussed in this document.

The concept of "cap" comes from growth funding. The 42,000 FTES in the example above represents the district's cap. If the district serves more than 42,000 FTES, the State only "guarantees" funding of 42,000. Any FTES above 42,000 are unfunded. In other words, the district served the students with no reimbursement of costs from the State. Having unfunded FTES is okay within reason and managing total FTES is an important part of enrollment management. Finally, the circumstances described in this paragraph are rare in terms of the projected cap and the actual cap. This aspect also adds complexity to enrollment management.

NEW RESOURCES - ONE-TIME-ONLY

As stated earlier, the District's Lottery, Non-Resident Tuition, and Interest revenues are the primary sources of one-time only funds. Each of these resources has an established level that supports continuing appropriations. The one-time-only portion of these resources is the amount received above the base level. Lottery is structured slightly differently. The first \$1.5M in Lottery receipts supports continuing compensation improvements. The next \$1.8M in Lottery is directed for one-time-only operational needs. So, for Lottery, any unrestricted funds above the base level of \$3.3M are considered one-time.

There are other resources not listed above which are also distributed as described below. However, those do not always occur so they are not referenced. Also, each of the District's collective bargaining agreements addresses the process to be used in the event a new funding source is realized.

FORMULAS FOR DISTRIBUTION OF NEW RESOURCES

The first formula applied to new resources is the initial allocation between compensation and operational. The new resources defined above are split 80% to compensation and 20% to operational. The naming convention is generally 80% to the Proportionate Share or "bucket" calculation and 20% to Program Development Funds (PDF).

PROPORTIONATE SHARE CALCULATION (80% FUNDS)

The proportionate share calculation, or "the bucket," takes the 80% of new continuing and one-time funds and distributes those to each employee group based upon the proportion that unit's total compensation bears to the total compensation of all units. Compensation is defined as salary and benefits for the unit members in general purpose funded positions. Categorical programs and other funds, such as bookstore, are responsible for funding the compensation improvements for employees charged to those programs or funds. Contract managers are not part of the proportionate share calculation.

Before growth funds are distributed to the units for general compensation improvements, staffing-related costs to generate the growth are funded. Those costs are: added adjunct instructional and counseling faculty, and regular faculty and classified positions.

Instructional Staffing

The primary cost to grow is the added instructional faculty to teach the sections which generated the additional student contact hours. Below is a simple example of the mathematical relationship between additional faculty and student contact hours.

Example: A district's growth goal is 168 Full-Time Equivalent Students (FTES) with a productivity level of 518. That requires 5 additional full-time faculty as follows:

| | | |
|---|--------|-----|
| Growth Goal (FTES) | 168 | (a) |
| Contact Hours per FTES | 525 | (b) |
| Total Student Contact Hours (TSCH) - (a) x (b) | 88,200 | (c) |
| Number of Weeks in Academic Year | 34 | (d) |
| Weekly Student Contact Hours (WSCH) - (c) / (d) | 2,594 | (e) |
| Productivity Goal | 518 | (f) |
| Number of Instructional FTEF Required (e) / (f) | 5 | |
| | | |
| Productivity Goal | 518 | (g) |
| Instructional Hours Per Week (Formula) | 15 | (h) |
| Average Class Size (g) / (h) | 34.5 | |

Based on 500

75/25 Consideration -
- Growth Potential -
Productivity -

The District allocates instructional staffing to achieve base WSCH (FTES) and productivity goals as illustrated above. Any additional instructional staffing required to achieve the growth goal is allocated to the colleges as adjunct or overload using the same basis (WSCH growth and productivity goals). The colleges then further distribute the FTEF based upon individual department and program goals. Each term, the amount of actual instructional FTEF utilized is determined. The Fall and Spring term FTEF is averaged and the number above or below the prior years' utilized level is charged to growth funds at the standard cost per adjunct/overload instruction.

Counseling Staffing

Generally, growth in student contact hours is also accompanied by growth in headcount or enrollments. The District has a formula to grow and allocate counselors to the colleges. A full-time counselor's workload is 1,305 hours per year. The District allocates one counseling FTEF for every 900 unduplicated students. The unduplicated count is determined at the 4th Week Fall (1st Census) and any increase over the prior Fall is appropriated from PDF in that year as one-time-only and then charged as a continuing cost against Growth funds to support the on-going allocation.

Full-Time Faculty Positions

The District is required to grow its Full-Time Faculty by the percentage increase in funded credit FTES (full-time faculty obligation). The requirement is for the growth faculty to be hired by the Fall following the fiscal year the growth was achieved. As this is a cost directly related to growth, the District charges Growth funds for the number of regular full-time faculty required for compliance with Title 5. The cost for each position is the net cost to convert an adjunct position to a regular position. All faculty positions, such as professors, counselors, librarians, are eligible to be funded. Replacement and growth positions are allocated following the colleges' prioritization process.

Going back to the instructional staffing calculation, if five adjunct faculty are funded as described and the District will hire three regular faculty then the net cost to Growth is the equivalent of two adjunct and three regular faculty positions.

One other note regarding faculty is the ratio known as the full-time to part-time or 75:25. Annually, the District reports its ratio of full-time faculty to part-time faculty. The statewide goal is for all districts to have 75% of faculty staffing be regular (full-time) positions. Very few districts are above 70% and funding has never been provided to aid districts in improving their ratio. Los Rios' ratio has fluctuated due to many factors although we generally report in the high sixties. There is currently no compliance requirement for 75:25 other than the Full-time faculty obligation described above. The obligation is a means to at least maintain district ratios until, if ever, there is funding to support increased regular positions.

Classified Positions

There is no direct or mandated computation to quantify the number of classified positions required to support the added demands associated with student growth. However, recognizing the need exists, there is a provision to fund additional classified positions. The formula allows for a maximum of the percentage of growth to be multiplied by the adopted budget classified FTE. The number of FTE is multiplied by an average classified cost and charged to growth funds. The full percentage allowed has never been charged to growth funds. Rather, the District has used 20% funds to support additional classified positions.

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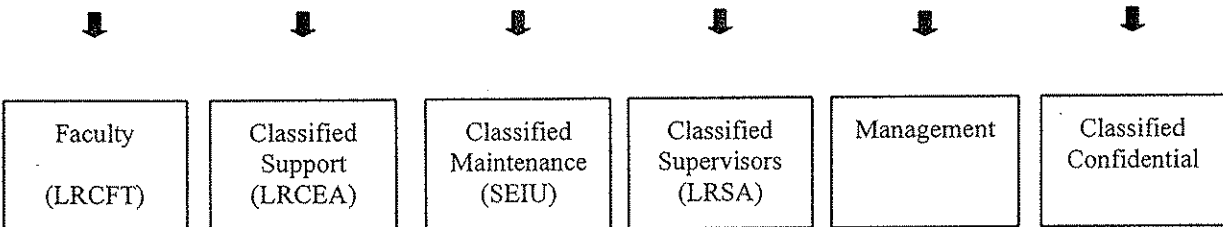
Administrative Positions

Growth funds cannot be used for administrative positions. Administrative positions are funded from the PDF (20%) process.

Once the costs described above (excluding administrative) as well as instructional costs related to the District's instructional contracts with local public safety agencies are recognized, the net result is distributed to the proportionate share calculation.

As stated above, the distribution to each unit is proportional based upon the unit's total salary and benefit costs. This ensures a fair distribution of the resources to each unit to support costs associated with each unit's members. Upon distribution, the resources are then combined with unit-specific resources, such as the savings associated with decrements, to determine the total resources available to the unit. From those resources unit-specific costs are deducted in a defined order. Those costs are step and column increases, medical and dental premium increases, and payroll-related benefit costs. Units may have other specified costs, such as stipend increases for faculty. Continuing resources are used to fund continuing costs. The net available resources for each unit are then determined and used to calculate the salary schedule improvement that can be funded. The net resources are paid retroactively to unit members based upon their service for the fiscal year. Net continuing resources are added to the next year's salary schedule as a continuing salary schedule improvement.

Continuing:
80% of COLA
80% of Net Growth
One-Time-Only (above base):
80% of Lottery
Other



PROGRAM DEVELOPMENT FUNDS (20% FUNDS)

The new resources identified earlier that are set aside to support operational costs and program improvement are referred to as PDF. These resources are also tracked as continuing and one-time-only. The PDF continuing resources are used to fund the operational costs associated with growth, such as utilities and instructional materials. They are also used for additional classified and administrative positions. One-time PDF resources are appropriated to meet the match requirement for State Scheduled Maintenance and Special Repairs. They also fund staff development, facility, equipment, and information technology costs.

A major area of PDF is support for the college's operational costs. A formula is used to distribute continuing PDF funds to the colleges. The allocation is referred to as the College Discretionary Funds or CDF allocation. Although the components of the formula are linked to distinct areas of operating the colleges, there is no restriction regarding how each college may use or allocate its CDF. In other words, the colleges are not required to use the funding generated from the square footage component to support facility related costs.

There are four components used in the CDF formula:

- ★ Base
- WSCH
- Square Footage
- FTE

The first, Base, recognizes that each college requires a basic amount to meet operational needs. Each college's base level is unique and was determined as part of a revision to the formula during the 2001-02 year.

WSCH is the determinant for the single largest component of the formula. This component is intended to provide the funds necessary to support the operational costs associated with classroom instruction. The WSCH amounts are taken from the 4th Week Census Enrollment reports for the Fall and Spring terms, the 11th Week Census from the Fall term, and the Summer Enrollment converted to an annual WSCH basis. The Spring term report is from the Spring term preceding the fiscal year. This term is used in order to complete the calculation and allocation during the Fall term. The three primary term reports are averaged and then the Summer term is added to that average. By using the 11th week Census for Fall, an incentive for retention is incorporated into the calculation.

When the WSCH level is determined it is then multiplied by a per hour rate, currently \$6.41. The rate per WSCH is also the only component in the formula that is improved by the COLA rate each fiscal year.

The total square footage information for each college is taken from the facilities inventory report filed with the State in October of each year. This component recognizes

the cost to operate the plant increases as facilities are added. The square footage is adjusted for bookstore facilities and the Hughes Stadium at SCC. The total square footage is then multiplied by \$0.30.

In addition, there is a facility utilization factor that divides the WSCH for each college by the Assigned Square Footage. This factor recognizes that higher utilization of space is likely more costly as well. The utilization percentage is multiplied by \$0.30 and the result is then the colleges receive that rate for each assigned square foot.

Lastly, there is a staff development factor of \$20.00 per full-time-equivalent position to provide a basic level of funding for professional development of staff.

Other PDF Formulas

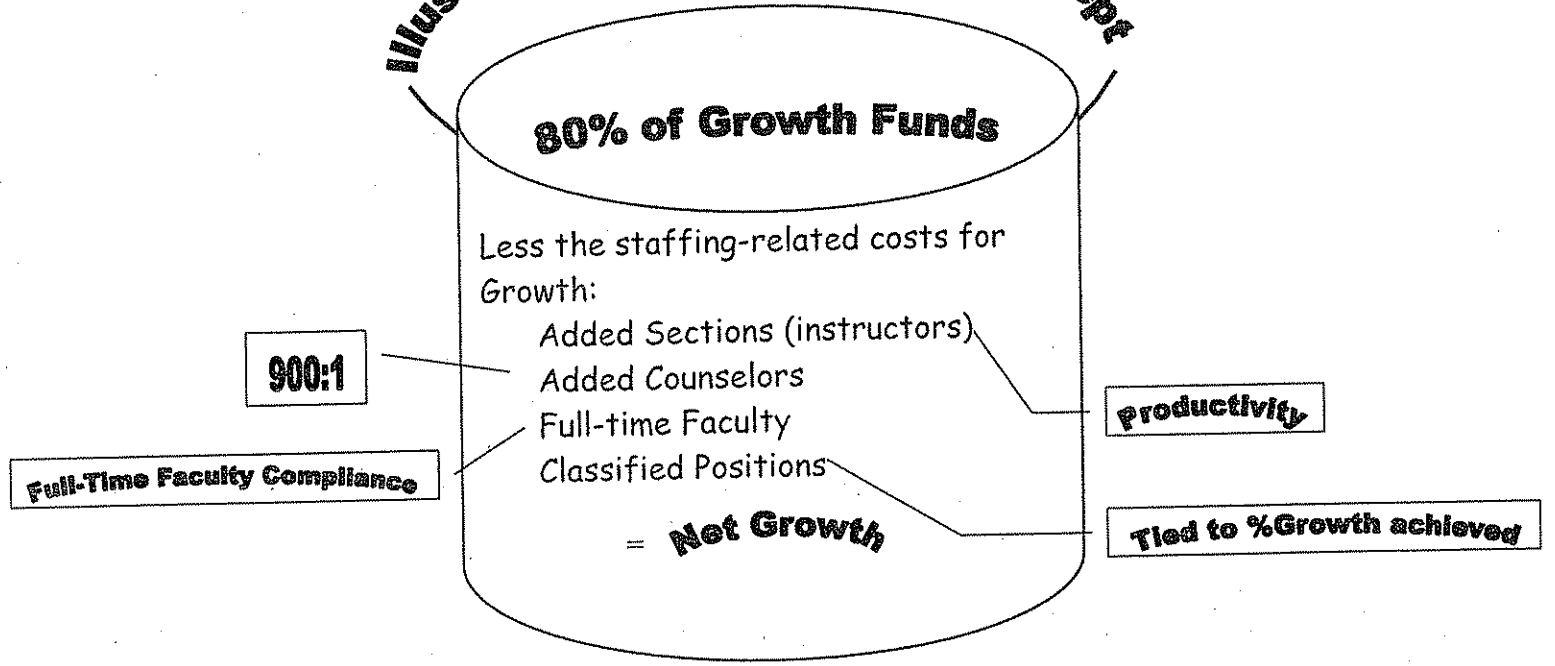
Staff development funds appropriated in PDF are distributed using a formula with two components: FTES and FTE. Each component is weighted 50:50 and the appropriation distributed accordingly.

Plant and Equipment is a block grant from the State that has two separate allocations: State Instructional Equipment and Library Materials Funds (SIEF&LM), and Scheduled Maintenance and Special Repairs Funds (SMSR). Historically, the State has equally funded the two programs. When the programs were combined into a block grant, the District chose to continue to designate one-half for SIEF&LM and one-half to SMSR. The SIEF&LM funds are distributed to the colleges based upon FTES. SMSR are allocated based upon need as determined by each college's vice president of administration working with the Facilities Management department. Although the State allocation has varied between combining the two programs and distinct allocations, the practice has been to split Los Rios' share equally.

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Los Rios

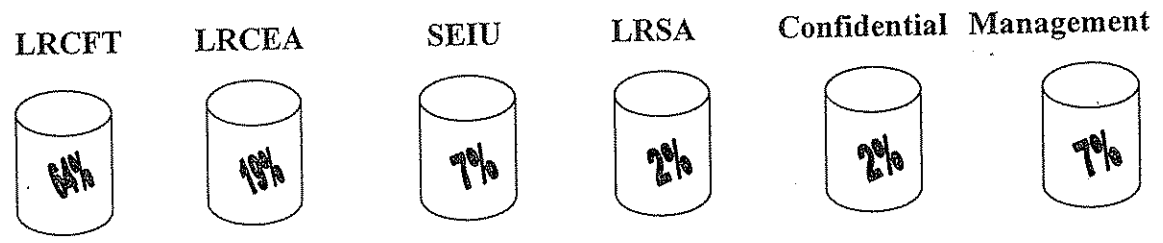
Illustration of the "Bucket" Concept



80% of new or above base levels

$$\text{Net Growth} + \text{COLA} + \text{Equalization} + \text{Lottery} + \text{Basic Skills} = \text{Available Resources}$$

Available Resources then distributed to each unit based upon the proportionate share * of each unit's salary and benefit costs relative to the total.



After the available resources have been distributed proportionately, unit specific resources such as salary savings from decrements are added to determine total available resources for each unit.

Then unit specific costs, such as step increments or increases in medical premiums are deducted. The net available after such deductions is the amount available for salary schedule improvements aka retro. Such improvements are generally comprised of both continuing (on-schedule) and one-time (off-schedule) improvements.

*The proportionate share is determined annually and the above percentages are a representation only.

Ron

College Discretionary Funds - 2007-08 Allocation

| 2007-08 CDF Factors | | | | | | |
|---------------------|----------------|-----------------|------------------|------------------|---------------------|-----------------|
| | WSCH | FTE | SqFeet | Assignables | Base | Equipment Value |
| | | | | SqFeet | | |
| ARC | 335,407 | 1,055.01 | 745,291 | 522,720 | \$ 760,000 | - |
| SCC | 252,908 | 879.38 | 684,000 | 471,698 | 640,000 | - |
| CRC | 134,519 | 469.15 | 477,598 | 321,244 | 325,000 | - |
| FLC | 77,451 | 277.33 | 331,866 | 221,940 | 150,000 | - |
| 2007-08 | 800,285 | 2,680.87 | 2,238,755 | 1,537,602 | \$ 1,875,000 | \$ - |
| 2006-07 Final | 710,528 | 2,569.66 | 2,209,239 | 1,515,596 | \$ 1,875,000 | - |
| Change | 89,757 | 111.21 | 29,516 | 22,006 | \$ - | - |

| 2007-08 CDF Rates | | | | | | |
|-------------------|---------|-------|----------|-------------|----------|---------------------|
| | WSCH | FTE | SqFeet | Assn Sq Ft | Rate | Equipment Reduction |
| | | | | Utilization | | |
| ARC | \$ 6.41 | 20.00 | \$ 0.300 | 64.2% | \$ 0.192 | |
| SCC | 6.41 | 20.00 | 0.300 | 53.6% | 0.161 | |
| CRC | 6.41 | 20.00 | 0.300 | 41.9% | 0.126 | |
| FLC | 6.41 | 20.00 | 0.300 | 34.9% | 0.105 | |

| 2007-08 Allocation | | | | | | | | | |
|--------------------|---------------------|------------------|-------------------|-------------------|---------------------|-------------|----------------------|---------------------|-------------------|
| | WSCH | FTE | SqFeet | Assn Sq Ft | Utilization | Base | Equipment Allocation | Proposed Final CDF | Final Increase |
| | | | | | | | | | |
| ARC | \$ 2,149,957 | \$ 21,100 | \$ 223,587 | \$ 100,622 | \$ 760,000 | \$ - | \$ 3,255,266 | \$ 2,924,749 | \$ 330,517 |
| SCC | 1,621,140 | 17,588 | 205,200 | 75,872 | 640,000 | - | 2,559,800 | 2,306,525 | 253,275 |
| CRC | 862,265 | 9,383 | 143,279 | 40,356 | 325,000 | - | 1,380,283 | 1,257,197 | 123,086 |
| FLC | 496,459 | 5,547 | 99,560 | 23,235 | 150,000 | - | 774,801 | 669,389 | 105,412 |
| Total | \$ 5,129,821 | \$ 53,618 | \$ 671,626 | \$ 240,085 | \$ 1,875,000 | \$ - | \$ 7,970,150 | \$ 7,157,860 | \$ 812,290 |

| Allocation Compared to FTES | | | | | | | | | |
|-----------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------------|-------------|
| Components | ARC | SCC | CRC | FLC | Total | 2006-07 FTES | % of Total | FTES Basis | Difference |
| | | | | | | | | | |
| WSCH | 66.0% | 63.3% | 62.5% | 64.1% | 64.4% | 20,959 | 41.8% | \$ 3,329,549 | \$ (74,283) |
| FTE | 0.6% | 0.7% | 0.7% | 0.7% | 0.7% | 16,085 | 32.1% | 2,555,201 | 4,599 |
| SqFeet | 6.9% | 8.0% | 10.4% | 12.8% | 8.5% | 8,492 | 16.9% | 1,348,971 | 31,312 |
| SqFeet Utilization | 3.1% | 3.0% | 2.9% | 3.0% | 3.0% | 4,636 | 9.2% | 736,429 | 38,372 |
| Base | 23.2% | 25.1% | 23.5% | 19.4% | 23.5% | - | - | - | - |
| Equipment | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | - | - | - | - |
| Total | 99.8% | 100.1% | 100.0% | 100.0% | 100.0% | 50,171 | 100.0% | \$ 7,970,150 | \$ 0 |