



Budget Allocation Model

Peralta Community College District

Berkeley City College

College of Alameda

Laney College

Merritt College



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Part I: Introduction and Background

The following represents the summary recommendations of the Planning and Budgeting Council for addressing the implementation of an unrestricted general fund budget allocation model. The model presented herein resembles the State of California's funding model established in Senate Bill 361 (SB 361).

This represents the cumulative work of the Planning and Budgeting Council during the 2010-11 academic year which included regularly scheduled monthly meetings, two budget allocation model workshops, and the subcommittee work of the facilitators and Vice Chancellor of Finance. Subsequently, the model has been improved during each academic year (2011-12, 2012-13, 2013-14, and again during 2014-15).

Why develop an allocation model?

Previously, a Peralta Community College District Budget Allocation Model was approved in 2006, revised and approved in 2008 by the then existing District Budget Allocation Task Force. However, these previously approved models were never implemented.

The previous funding process had little linkage between revenues and expenditures. Therefore, the Planning and Budgeting Council expedited development of a new allocation model to address the situation. The core principals supporting the recommendations are

- 1) demonstrated linkage between strategic planning and funding at all levels;
- 2) transparency that is equitable and clearly documented, and
- 3) and an allocation model that closely mirrors how the revenue is received from the State of California.

Which allocation model best meets our needs?

A number of fundamentally different approaches to revenue allocation in multi-college districts were explored. The SB 361 model is currently used for funding apportionment for all California Community Colleges. This model includes three fundamental revenue drivers: base allocation, credit FTES and non-credit FTES. The base revenue allocation takes into consideration the economies of scale and size of colleges. Apportionment funding from this formula represents more than 70% of the district's unrestricted revenue. Therefore, for sake of transparency and fairness, it is consistent that the Peralta Community College District Budget Allocation Model.

The shift to utilization of this Budget Allocation Model has defined limits on the majority of resources and expenditures and has encouraged fiscal accountability at all levels. The linkage of allocations to expenditures at the college level has moved the Peralta Community College District to greater fiscal stability and clarity as to how colleges, support functions, and auxiliary enterprises are funded. Implementation of this budget allocation model is consistent with Board Policy 6200 Budget Preparation.

Budget Allocation Model: Guiding Principles

- Simple and easy to understand
- Provides financial stability
- Provides for a reserve in accordance with PCCD Board policy
- Provides clear accountability
- Provides for periodic review and revision
- Utilizes conservative revenue projections
- Maintains autonomous decision making at the college level
- Provides some services centralized at the District Office
- Is responsive to the district's and colleges' planning processes

Partnership between the District Office and the Colleges

The move from a historical expenditure based funding method to a revenue based allocation model was a culture shift. The transition the PCCD Budget Allocation Model required changes in many areas including: accountability, autonomy, transparency, regulatory compliance, and expenditures.

On the broadest level, the purpose of this partnership is to encourage and support collaboration between the colleges and the district office. The colleges have broad oversight of institutional responsibilities while the district office primarily ensures compliance with applicable statute and regulatory compliance as well as essential support functions. It is understood that colleges have primary authority over educational programs and student services functions. Each college develops autonomous and individualized processes to meet state and accreditation standards. The college president shall be responsible for the successful operation and performance of the college.

The Chancellor, under the direction of the Governing Board, is responsible for the successful operation, reputation, and fiscal integrity of the entire Peralta Community College District. This budget allocation model does not diminish the role of the Chancellor nor does it reduce the responsibility of the district office staff to fulfill their fiduciary role of providing appropriate

oversight of District operations. It is important that guidelines, procedures, and responsibilities be clear with regard to district compliance with law and regulation as it relates to the 50% law, full-time/part-time faculty requirements, attendance counting, audit requirements, fiscal and accounting standards, procurement and contract law, employment relations and collective bargaining, payroll processing and related reporting requirements, etc. Current responsibility for these requirements remains at the district office.

The district office has a responsibility to provide direction and data to the colleges to assure they have appropriate information for management decision making with regard to resources allocation at the local level and to do their part in assuring compliance with legal and regulatory requirements. This budget allocation model acknowledges that the Peralta Community College District is the legal entity and ultimately responsible for actions, decisions, and legal obligations of the entire institution.

The district office has responsibility for providing certain centralized functions, both to provide efficient operations, as well as to assist in coordination between the district office and the four colleges. These services include human resources, fiscal and budgetary oversight, payroll, procurement, construction and capital outlay, information technology, facilities maintenance, security services, admissions and records, financial aid, and district-wide education and planning services.

This revenue based funding model allocates resources to the four colleges in a similar manner as received by the district. The model allocates resources for the district office, district-wide services, and regulatory costs focusing leadership responsibilities on monitoring and oversight. This model requires the District Office to engage in on-going and timely dialogue with the four colleges on a variety of policy level governance and funding issues critical to the colleges' decision making.

Part II: Application of the Model

A. Revenue Allocation

Base Allocation:

Each college shall receive an annual base allocation. The base revenues for each college shall be the sum of the annual basic allocation, credit base revenue and non-credit base revenue.

Credit Base Revenue:

Credit Base Revenue shall be equal to the funded base credit FTES rate subject to cost of living adjustments (COLA) if funded by the State. To provide stability and aid in multi-year planning, funded credit FTES will be included in the three year enrollment FTES average. This will assist in mitigating significant swings/shifts in credit FTES per college and associated resources.

Non-Credit Base Revenue:

Non-credit base revenue shall be equal to the funded base non-credit FTES rate subject to COLA if funded by the State. To provide stability and aid in multi-year planning, funded non-credit FTES will be included in the three year enrollment FTES average. This will assist in mitigating significant swings/shifts in non-credit FTES per college and associated resources.

Unrestricted Lottery:

Projected revenue shall be distributed to colleges on a per-FTES basis.

Apprenticeship:

Revenue shall be distributed to colleges as earned and certified through hours of inspection.

Measure B Parcel Tax:

Measure B was a special parcel tax measure approved by the voters on June 5, 2012. The approval provided the District with an annual parcel tax on all parcels located within the District's boundaries of \$48 per parcel per year for the duration of 8 years. It is anticipated that annual receipts will be approximately \$7.5 million. The funding is restricted in nature and can only be used for: maintaining core academic programs, such as Math, Science, and English; training students for successful careers; and preparing students to transfer to four-year universities.

All monies collected shall be accounted for separately (fund 12) and shall be expended only for those specified purposes above and allocated to the colleges in the manner consistent with the approved Budget Allocation Model (BAM). The monies collected will not be used to pay

administrators' salaries or benefits nor will it be used to fund programs or purposes other than those listed above.

The Parcel Tax will be reviewed at the close of the prior fiscal year as part of the closing process by the district Office of Finance. If the amount collected does not accurately reflect the projected budget amounts for the current fiscal year, the information will be updated within the College allocations.

Distribution of New Resources:

Distribution of new resources will be first allocated to non-discretionary budgets and then to discretionary budgets. Non-discretionary budgets are those that support the salaries and related benefits of permanent positions within the funded budget. Discretionary budgets consist of hourly personnel, supplies, materials, services, and capital equipment budgets.

Staffing: Faculty (FT, PT), Classified, and Administration. Staffing budgets are funded within the allocation model as components of the respective college's and district's non-discretionary budgets.

Regulatory Compliance:

50% law, Faculty Obligation Number (FON), Student Fees, and Contracted District Audit Manual.

Growth:

To the extent new growth funds are provided by the State of California, growth will be allocated on the basis of FTES. The amount per college will be dependent upon generation of funded FTES and achievement of productivity targets as outlined below.

Non-Resident Enrollment Fees:

For purposes of this section, Non-Resident includes out-of-state and international students. Non-Resident enrollment fees are set by the Board of Trustees no later than February 1st of the preceding year. These enrollment fees are considered unrestricted revenues. Beginning with fiscal year 2015-16, it is the desire of the District to distinctly identify and allocate these fees to the colleges in which the non-residential students are served. To provide stability and aid in multi-year planning, non-resident FTES will included in the three year enrollment FTES average.

The enrollment fee revenue will be reviewed at the close of the prior fiscal year as part of the closing process by the district Office of Finance. If the gross Non-Resident Enrollment Fees are not in alignment with the projected budget amounts for the current fiscal year, the information will be updated and College Non-resident Enrollment Fee Allocations will be adjusted.

Productivity:

Approximately 70% of Peralta's Unrestricted General Fund revenue is received in the form of state apportionment. Under the provisions of Senate Bill 361 (SB 361), state apportionment is primarily driven by the Full-Time Equivalent Student (FTES) workload measure. It is therefore necessary for the Colleges and the District as a whole to remain cognizant of certain internal workload measures to track efficiency and productivity. One such workload measure used is productivity. Productivity is generally defined by the number of FTES generated per Full-Time Equivalent Faculty (FTEF). Each college's productivity target is 17.5 FTES/FTEF.

For any year in which the State funds growth, colleges that meet or exceed established productivity targets will be allocated additional growth dollars in accordance with the criteria outlined below.

Approximately one half (50%) of all growth dollars funded and received in the current fiscal year from the State will be allocated to the four colleges in proportion to the FTES generated by that college to the District's total funded FTES. The remaining one half (50%) of all growth dollars funded and received in the current fiscal year from the State will be allocated to those colleges that:

- Meet or exceed their productivity targets in the current fiscal year
- Meet or exceed their FTES targets in the current fiscal year
- Did not deficit spend in their respective fund 01 and fund 12 budgets in the past and current fiscal years
- These allocations will then become incorporated into the colleges' base budgets for subsequent fiscal years.

Other New Resources (interest, non-resident tuition):

Distribution of new resources will be based upon the source of funds. For revenue sources that are not site specific or attributed to a specific college or location, those resources will be allocated based upon FTES. In instances where new revenues are attributed to a specific college then those resources will be solely allocated to that college or location.

Prior Year Carry Over:

At the recommendation of the Vice Chancellor for Finance and approval of the Chancellor, unspent budgeted funds within discretionary accounts from the prior fiscal year may be carried over for discretionary purposes. Examples of such endeavors would include campus computer replacement cycle (see Multi-Year IT Expenditure Planning), one-time expenditures for program expansion or reorganization, or other one-time expenditures deemed highest and best use by the college President.

Multi-Year IT Expenditure Planning:

Due to the current economic environment, the District has very little ongoing discretionary funding to support the evolving needs of IT planning. It is the intent and desire to provide flexibility and support to those colleges and central office IT services that have multi-year planning mechanisms in place and who have set aside funding within their Unrestricted General Fund discretionary allocations to support these plans.

To support this effort the Chancellor will on an annual basis, no later than November 1st, announce a restricted allocation of one-time funds within the Unrestricted General Fund that will be used as a dollar-for-dollar match to fund IT projects identified at the colleges and central office IT service areas and partially funded at the colleges or central office IT service areas.

Colleges and central office IT service areas will identify and prioritize projects and forward their requests to the District Technology Committee (DTC) for its review and prioritization.

To the extent that there are one-time funds available, the DTC will review all requests submitted for consideration of these matching funds and forward to the PBC its recommendations no later than January 1. The PBC will review and provide its recommendations to the Chancellor no later than February 1.”

Facility, Maintenance and Operation Expenditures Planning

“Due to the State’s economic environment and imposed budget reductions the District has had very little ongoing discretionary funding to support the operating needs for maintenance and operations. It is the intent and desire to begin to rebuild budgets within the unrestricted general fund that will support the ongoing maintenance needs of the entire district. This can only be accomplished as the District receives additional revenue and as those funds are identified through the planning and budget integration model (PBIM).

To begin to support this effort, no later than January 1st on an annual basis, the Chancellor will announce a restricted allocation of one-time funds within the Unrestricted General Fund that will be used to support maintenance needs district-wide.

Identified and prioritized needs and projects will be forwarded to the District Facilities Committee (DFC) for their review and consideration. To the extent that there are one-time funds available, and allocated by the Chancellor, the DFC will review all requests submitted for consideration and will forward its recommendations to the PBC no later than February 1st .

The PBC will review the requests and provide recommendations to the Chancellor no later than March 1 of each year”.

B. Enrollment Management

Apportionment Revenue Adjustments:

It is very probable that the district's revenue from apportionment will be adjusted after the close of the fiscal year in the fall, but most likely at the P1 recalculation, which occurs eight months after the close of the year. Any increase or decrease to prior year revenues is treated as an addition or reduction to the colleges' current budget year.

If apportionment revenue is reduced from the prior year base for any of the following reasons:

- Prospective revenue reduction anticipated in budget development;
- Mid-year deficit resulting from insufficient tax revenues or enrollment fees; or
- As a result of end of year adjustments.

When such adjustments occur they will be incorporated into revised allocations per location. The method of adjustment is dependent upon the type of adjustment. For example, if the adjustment is related to a statewide general fund reduction then the adjustment will be made – positive or negative – based upon FTES. If adjustments can be related to a prior year and are negative and produce significant negative operating effects, then broader discussion may be necessary to mitigate the impacts over multiple fiscal years.

Summer FTES:

There may be times when it is in the best financial interest of the District to shift FTES earned during the summer between fiscal years. When this occurs, the first goal will be to shift FTES from all four colleges in the same proportions as the total funded FTES for each of the four colleges. If this is not possible, then care needs to be exercised to ensure that any such shift not create a manufactured disadvantage to any of the colleges respectively. If a manufactured disadvantage is apparent, then steps to mitigate this occurrence will be developed. Such strategic planning, because of the direct impact upon educational programs and services, should come through the shared governance process through the District Education Committee.

Restoring “borrowed” FTES should occur on the same basis as it was drawn down up to the levels of FTES borrowed. If it cannot be restored in that manner, care should be taken to evaluate if a disadvantage is created for any college.

Borrowing of summer FTES is not a college-level decision, but rather a district-level determination. It is not a mechanism available to individual colleges to sustain their internal FTES levels. Attempting to do so would raise the level of complexity on an already complex matter to a level that could be impossible to manage and prove detrimental to the district as a whole.

Shifting Resources among Colleges:

To the degree that the required full-time faculty numbers for each college are out of sync with the ratios as established by the district based on FTES ratios, correction of the imbalance will occur, as vacancies occur at a college with faculty in excess of the required number.

1. The District will establish for each college a FON based on the ratios of funded FTES. Each college's ratio multiplied by the district-wide FON will become the college's FON. Each college's FON will be adjusted annually based on changes in funded FTES and subsequent requirements by the State regarding the FON. Each college shall be required to fund at least that number of full-time faculty positions. If the district falls below the FON and apportionment is taken away, that reduction shall lower the revenues of the colleges causing such apportionment loss.
2. If the imbalance is internal and the district as a whole is at or above its FON, the college or colleges below the required number shall increase its positions to maintain its individual FON.

C. Assessments for Centralized Services

The costs for centralized support functions and services will be allocated to each college in the same manner as revenues. That is, costs will be allocated on a per-FTES basis.

Central support service areas include:

Chancellor's Office
Board of Trustees
General Counsel
Information Technology
Marketing-PCTV
Risk Management
Educational Services
Admissions and Records
International Education Program
Institutional Development and Research
Administrative Services
Department of Employee Relations (Employee Benefits)
Human Resources
Financial Services (Accounting, Budget, and External Reporting)
Purchasing Division
Payroll Department
General Services (Security, Police and construction)
Facilities Operations (Maintenance and Operations)

C. Regulatory Costs: Other Post Employment Benefits (OPEB)

The District has a very complex OPEB program that services the contractual commitments contained within the collective bargaining agreements. The current structure calls for the payment of the annual debt service (annual principal and interest payments) and the current expense of retiree medical costs to be made out of the unrestricted general fund. To the extent permissible, the OPEB Trust then reimburses the unrestricted general fund for the annual expense of the retiree medical cost. These are administered centrally because retiree costs are not associated with the annual operations of an individual college.

Beginning fiscal year 2010-11 the District implemented, as a piece of the revised OPEB strategy, an OPEB charge of 12.5% to each position salary to be used to assist with funding the unfunded actuarial accrued liability of \$221 million (per Bartel and Associates' report dated 3/21/2011). The application of this employer paid benefit charge is consistent with guidance provided by both the United States Department of Education and the California Department of Education. The annual charge, in 2010-11 of 12.5%, is based upon an approved actuarial study and may fluctuate based upon revised actuarial studies.

D. Reserves

In accordance with Board Policy 6200 (Budget Preparation), the Budget will be developed with a minimum 5% Ending Fund Balance.

Part III: Strategies for Transition to the PCCD Budget Allocation Model

A. Options

It is understood that shifting from a base rollover allocation model to a 361 allocation model will mark a paradigm shift in funding methodology for the Colleges and District. Due to the size and magnitude of this change, the initial implementation may require multiple years to avoid negative and sudden operational impacts to programs and services.

Options to achieve implementation of the new budget allocation model may include:

Shifting FTES targets to provide additional apportionment to some colleges

Deficit reduction plans (2, 3, or 4 years). Should colleges or administrative service centers deficit spend, the amount by which was deficit spent will be subtracted from any potential carryover funding. Should carryover funding be insufficient to cover deficits, a one-time reduction in the subsequent year budget may be used.

Shifting growth money from one college to another

Reductions in centralized support functions and services

Utilization of international student tuition to either provide transitional dollars or permanent revenue to reduce apportionment deficits

B. Periodic Review of the Budget Allocation Model

The move to this budget allocation model will take some time to sort out any remaining issues and evaluate the effectiveness of the procedures outlined herein. It is recommended the model be reviewed and adjusted after the first full year of implementation.

Thereafter, it is suggested that the model be reviewed at regular three-year intervals along with the procedures to determine what adjustments, if any, are necessary. The goal is to keep the model up-to-date and responsive to the changing community college system landscape.