Budget Allocation Model

Peralta Community College District

Berkeley City College

College of Alameda

Laney College

Merritt College

Draft 1.
3-24-11

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Periodic Review of the Budget Allocation Model

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 closely follows 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.

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 current funding process has little linkage between revenues and expenditures. Therefore, the Planning and Budgeting Council expedited development of a new allocation model to address the situation.

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 a formula that has an annual basic revenue allocation and uses marginal funding rates for FTES. The basic revenue takes into consideration the economies of scale and size of colleges. Apportionment funding from this formula represents more than 85% of the district's unrestricted revenue. Therefore, for sake of transparency and fairness, it is consistent that the Peralta Community College District utilize the SB 361 model in allocating apportionment resources to the colleges. This ensures that the colleges will receive what they earn.

The shift to utilization of an SB 361 model will define limits on the majority of resources and expenditures and will encourage fiscal accountability at all levels. The linkage of allocations to expenditures at the college level will move the Peralta Community College District to greater fiscal stability.

When will the new allocation model be implemented?

Projected implementation for this plan is July 2011.

Budget Allocation Model: Guiding Principles

- Simple and easy to understand
- Consistent with the State's SB 361 model
- 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 will be a culture shift. The transition to a SB 361 allocation model will require 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. 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 responsibility 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 will remain 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.

The SB 361 revenue based funding model, when fully implemented, will allocate 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 will require 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

Revenue Allocation

The allocation model is based upon the principles inherent in the state funding formula prescribed by SB 361.

Base Allocation:

Each college shall receive an annual base allocation per SB 361. 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.

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.

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.

Distribution of New Resources:

Staffing: Faculty (FT, PT), Classified, Administration . . ***. . . .

Regulatory Compliance: 50% law; 75/25 law . . ***. . . .

Growth . . .***. . .

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

Other New Resources (interest, non-resident tuition . . . ***. . .

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.

Then . . . *** ………….

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. If a manufactured disadvantage is apparent, then steps to mitigate this occurrence will be developed.

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.

Assessments for Centralized Services

District Office (Purchasing, Payroll, Accounts Payable, etc.) . . .***. . .

District-wide Services (Police, IT, HR, Financial Aid, A&R, Legal, Risk Management, Ed Services, Facilities Maintenance, etc.) . . .***. . .

Regulatory Costs (OPEB, Insurance, Audit, etc.) . . .***. . .

Reserve and Deficits . . .***. . .

Part III: Strategies for Transition to the SB 361 Allocation Model

Shifting FTES Targets to provide additional apportionment to some colleges

Deficit Reduction Plan (2, 3, or 4 years)

Shifting Growth Money from One College to Another

District Office Service Reductions

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.