

Los Rios Community College District Budgeting Principles and Formulas

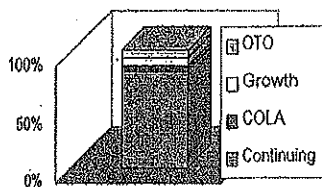
OVERVIEW

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.