

## The Fiscal Environment

Understanding the fiscal role and responsibilities of the governing board means understanding the fiscal environment in which the community colleges operate. California's community colleges are publicly funded institutions; therefore they depend on and respond to the general economy, public support, and the political process. Many factors in the environment influence the decisions boards make. Trustees must consider a complex interplay of economic, political, social, demographic, and legal forces.

Until 1978, local boards of trustees had authority to establish local tax rates for community colleges. Most of the resources used by the colleges came from local property taxes. The tax rates set by the boards determined, to a large extent, the level of funding for the local colleges. However, in 1978, Proposition 13 removed local taxing authority and put limits on property tax rates and increases. The responsibility for determining the level of public funding for the colleges shifted from local boards to state government.

The shift in responsibility changed the role of the boards to what it is today. Boards work within state-determined allocations to establish budget priorities that best serve their local communities. They do so within the constraints of state statutes and Board of Governors regulations on how funds may be used. Their major accountability to the voters is ensuring that the education and services offered by their colleges serves local community needs.

Governing boards, as well as individual trustees, also play a major role by advocating to the legislature and Board of Governors for adequate funding and funding formulas. They may seek support from their local community in their advocacy efforts. They also determine whether to seek local bonds for capital construction and the amount. Boards may support seeking alternative sources of funds through foundations and grants.

### Revenue Sources

As stated above, colleges receive the bulk of their resources from the state. The state's appropriation is based on three major sources: state monies, local property taxes, and student fees. In addition, funds from the federal government support specific programs in the colleges. In general, revenues for the California Community Colleges come from the following sources:

State general fund .....	43 percent
Local property tax .....	35 percent
Education Protection Act (EPA) .....	14 percent
Student fees .....	7 percent
RDA Dissolution .....	2 percent

State funds include general apportionment, categorical funds, capital construction, the lottery (less than 3 percent), and other minor sources.

The colleges collect resident student enrollment fees, but the state considers 98% of the fees as part of the state appropriation. The fees are set by the legislature and the revenue received is considered "within" the Proposition 98 guarantee. However, when fees decline, the Legislature has tended to backfill only the fee revenue, but not the administrative portion of the fees, thus leaving the colleges with less money than anticipated. Federal resources include financial aid, vocational education, and minor funds designated for specific purposes. Other federal initiatives (such as welfare reform) impact how much revenue comes from the national level. The responsibility to allocate federal funds to colleges is usually delegated to state agencies.

## Factors in State Appropriations

How much community colleges may expect depends on the state's economy, how much money the state government has, and the spending priorities of the Governor and Legislature. The recession in the early 1990s resulted in tight budgets for the colleges, but they enjoyed increased funding with the economic growth in the second half of that decade.

The declines in state revenue from the stock market collapse of 2000 and the lost revenue from the state's vehicle license fee led to a return to austere years in the early 2000s. While the state's economy has largely recovered, it will take several years and policy decisions to either cut programs or increase taxes to bring the state's long term budget into balance.

State revenue projections can change dramatically from the initial budget proposed in January to the actual income the state receives during the fiscal year, so the amount of money that is provided to the colleges is often uncertain, even after the prior fiscal year is over.

The amount of state funding for community colleges is determined in large part by Proposition 98, which guarantees a minimum percentage of the state budget for the public school system and community colleges. The precise share of Prop 98 funds for community colleges is negotiated each year in the political process and varies annually, but is just over 10%.

## State Appropriations Process

Building the state budget is at least a yearlong process involving local entities, state agencies, the Legislature, and Governor.

Each fall, proposals for changes in the state budget for the following fiscal year are submitted to the Department of Finance (DOF) by every state agency, including the System Office of the California Community Colleges. These proposals are submitted in the form of budget change proposals (BCPs), which are lengthy and detailed analyses of needs, proposed solutions, and expected outcomes. The BCPs for the community college system are developed by the System Office in consultation with state associations (such as the League) and the districts. Department of Finance staff members meet with state agency personnel on each proposal, asking questions and seeking more data or justification. The DOF makes recommendations to the Governor in December, who also meets with agency heads, including the Chancellor of the Community Colleges

By January 10, the Governor presents a proposed state budget to the Legislature. Throughout the spring, the Assembly and Senate hold hearings on the Governor's budget proposal and develop their own budget proposals.

In May, the Governor releases a revised budget proposal known as the May Revise. This proposal takes into account changes in the level of revenue the state expects to receive, as well as the debate and advocacy that has occurred since the initial proposal in January.

June 15 is the constitutional deadline for the Legislature to submit its proposed budget to the Governor. This budget is a result of negotiations within the Budget conference committee to resolve differences between the Assembly and Senate's adopted budgets. It is based on the budgets proposed by each house of the legislature, as well as the Governor's initial proposal and May Revise. If the Legislature's budget is different from what the Governor wants, additional negotiations often occur.

June 30 is the target date for the Governor to sign the budget. Delays in this date often have occurred due to negotiations between the Governor and Legislature. The Governor may veto ("blue pencil") line items in the budget, but cannot add funds.

If a budget is not enacted by June 30, recent court decisions prohibit the State Controller from distributing funds to some public agencies, including community colleges. While most colleges can operate on reserve funds for a month or two, a prolonged budget impasse could require colleges to cease operations until the budget is enacted.

Throughout this process, colleges, state associations, and the System Office closely follow what funds are proposed for community colleges. Local district budgeting is based on educated projections of what the final budget will be. However, due to the state political process and changing revenue projections, colleges often enter the fiscal year without knowing for certain what their state appropriation will be, what student fees can be charged, and what constraints will exist.

In addition, actual revenues from property taxes and other sources may differ from what the state projected. The state's allocation to community colleges has changed during the fiscal year and even after it has ended.

## System Office Apportionments to Districts

Once the state budget is approved, the Board of Governors and System Office are responsible for allocating the state appropriation for community colleges to the districts. District allocations take into account revenues from state and local sources, including student fees, as well as the monies targeted for specific purposes in the state's budget.

The general fund allocations are based on a formula established in 2006 by Senate Bill 361, which amended and added to California Education Code Sections 84750 – 84760.5. This funding formula replaced program-based funding, which had been in place since 1990. SB 361:

- Designated a basic allocation for each district, determined by the size of the district and number of colleges and centers. This allocation recognized the fixed costs incurred by an institution. (see Table 1)
- Equalized funding across community college districts, so that all colleges receive essentially the same funds for a full time equivalent student (FTES)<sup>1</sup>. (Prior to SB 361, colleges could receive widely varying amounts per full-time student).
- Stipulated a uniform funding rate for all non credit FTES
- Created the Career Development and College Preparation Program for educational disadvantaged residents and established a specific non-credit funding rate for this purpose.
- Reformed the calculation of the system-wide budget request for enrollment growth to incorporate factors for state unemployment, age-specific population cohorts, and persistent instances of unfunded FTES.

Table 2 shows the funding rates for the different types of FTES. The basic allocation and rates per FTES are revised annually based on cost of living adjustments (COLA).

FTES	Allocation (in millions)
Single College Districts	
> 20,000 FTES	\$6
10,000 – 20,000 FTES	\$4.5
< 10,000	\$3.5
approved centers	\$1

Credit \$5,457	Non-Credit (Career Development & College Preparation) \$5,457	Non Credit (Regular) \$3,347
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Essentially, the allocation from the state general fund depends on enrollment, which varies from year to year based on the economy, employment rates, and other factors. A district's apportionment is based on either current year or prior year level of FTES, whichever is greater. Decreases in FTES will result in a revenue reduction at the district's average level of apportionment funding per FTES and is made in the year following the initial year of decrease in FTES. Therefore, colleges would have time to prepare for revenue reduction.

Throughout the state's budget development process, the System Office provides projections to the districts based on its "educated guess" of what the state budget will be. Districts develop their proposed budgets based on these projected allocations (the local budget development process is covered in the next chapter).

<sup>1</sup>A full time equivalent student (FTES) represents 525 hours of class instruction.

## Local District Advocacy

The System Office, the Community College League, and other state associations spend significant time and effort to influence the state appropriations process to ensure that colleges have sufficient funds. Local districts, led by their governing boards, also are important players in the advocacy process.

Therefore, local boards should be knowledgeable about the state budget process. Legislative advocacy on behalf of the local districts is coordinated by the League working with the System Office, Board of Governors, and other organizations that represent community college interests.

Local district efforts begin in January when they work with the League and the System Office to develop priorities for the Budget Change Proposals that the System Office will submit. The two League boards (California Community College Trustees and Chief Executive Officers) identify and review proposals for increases in or changes to the following year's state budget proposal. The BCPs are reviewed and negotiated in the Chancellor's Consultation process, which involves representatives from the League as well as faculty, student, and administrative groups. The Chancellor then presents a proposed budget request to the Board of Governors in July and September, and after its review and approval, the budget is submitted to the state Department of Finance.

The League depends on local trustees, CEOs, and college staff to keep in touch with their legislators on a year-round basis to assure the visibility of community college concerns during the legislative session. Districts that have legislative representatives on key committees in the Legislature are particularly important in ensuring that community college interests are heard.

## Constraints on Local Districts

### State Laws and Regulations

There are a number of factors that influence local budget decisions. The state allocation includes general apportionment and increases (if any) designated for cost of living, enrollment growth, and equalization. These are the most flexible sources of revenue and districts may allocate those for individual college needs.

The state allocation may also contain funds targeted or allocated for specific purposes. Categorical funds are expected to be used for certain purposes, and must be spent for specific services according to regulations developed by the System Office. Examples include programs for certain categories of students, scheduled maintenance, and telecommunications.

State law sets the level for student enrollment fees. State law and regulations also place strict limits on board authority to charge students for other administrative or user fees.

Other laws and regulations determine local allocation of state funds. One law is that 50% of the amount defined as "current expense of education" must be spent on instruction. Another consideration is the goal that at least 75% of student contact hours are taught by full time faculty (commonly known as the 75/25 rule). Districts that do not meet the 50% law must seek waivers from the state. Since the 75/25 ratio is a goal, there is no penalty as long as districts hire the number of full-time faculty designated by the System Office for that year. This is known as the full time faculty obligation.

## Other Funding Sources

Funds for capital construction and other major development efforts may be raised through local bonds. Many districts have also turned to other funding sources, including foundations, fundraising and grant-seeking. Partnerships with industry and government have also financially benefited colleges.

### Bonds

Major building and facilities development can be funded by lease revenue and local general obligation (GO) bonds. Lease revenue bonds provide districts large infusions of cash by selling district-backed bonds to investors and institutions. Boards may decide to seek voter approval for GO bonds. Proposition 39 bonds require approval from 55 percent of the electorate and the bond election must meet certain conditions.

### Foundations and Fundraising

Baccalaureate level institutions have long depended on grants and private funds as a significant source of income. In the past decade, community colleges have significantly increased their use of private fundraising

strategies. They have established or expanded foundations to oversee these efforts. They have capitalized on their colleges' unique roles and contributions to the community to garner increased local support for the college.

Foundations are separate entities established by governing boards to raise and administer private funds. Boards should maintain close ties to their foundations to ensure that the foundations' efforts support the policy direction and goals of the district.

Some of the strategies used by foundations include raising money for scholarships, establishing alumni associations and soliciting gifts from alumni, implementing planned giving, and holding special events. Trustees should be willing to fully support such efforts. That support is an important aspect of the board's community relations role.

### **Asset Management**

Assets of the district include land, buildings, and intellectual capital. Certain assets of some districts can be managed to produce income, such as leasing land or space to businesses.

### **Grants**

Grants for specific purposes and programs are available from local, state, and federal governments, as well as private companies and foundations. They make it possible for the college to augment and expand its programs and services for students and the community.

Some state grants are "entitlement" grants, awarded to all districts that qualify. Most grants are competitive and the colleges are required to submit proposals for consideration by the granting agency. Successful grant-seeking requires an investment in people and resources, which may depend on board support.

### **Partnerships**

Partnerships with local businesses and governments often provide additional sources of revenue and support. Business and industry have partnered with colleges to provide funds, space and equipment for instructional programs and services that will serve both the businesses and the local community. Colleges have partnered with local government to build joint facilities, such as recreation areas or libraries. Local redevelopment funds have also been used to help fund improvements in which both the college and community have an interest. Partnerships with K-12 and baccalaureate-level institutions have resulted in shared facilities and programs that enable more students to be served.

The governing board plays an important role in linking with local government officials and community, business, and industry leaders to support and maintain partnership efforts.

## **Summary**

California's community colleges, as public institutions, receive the bulk of their funds through the state budget process. The revenues and allocations are influenced by many complex factors, including the state's economy and the political environment. The amount of money provided to community colleges from the state budget is determined through discussions with the Governor, Assembly and Senate committees, the Board of Governors and System Office, and state associations that represent local interests. Locally elected trustees can be very influential before and during the state budget development process—the Community College League provides much information to assist their advocacy efforts.

Local budget decisions depend on the state appropriation and how it is allocated to the districts. The state budget, state laws, and the Board Governors' regulations determine local budget decisions. Understanding how the state budget and allocations are determined is an important first step for boards in fulfilling their responsibility for the fiscal health of their districts. The next chapter describes the budget process and the role the board plays by setting policy priorities for and adopting the budget.

## **Resource**

For more information, see *Introduction to Fiscal Responsibilities: A Resource for Governing Boards* published by the League in 2007 and revised in 2018.