

**SANTA MONICA COMMUNITY COLLEGE DISTRICT
2015-2016 PROPOSED ADOPTED BUDGET NARRATIVE**

The Santa Monica Community College District Proposed Adopted Budget for fiscal year 2015-2016 is comprised of the following nine funds:

Unrestricted General Fund	\$184,935,310
Restricted General Fund	<u>\$ 42,302,400</u>
<i>Total General Fund</i>	\$227,237,710
Special Reserve Fund (Capital)	\$ 20,106,075
Bond Fund: Measure U	\$ 21,394,063
Bond Fund: Measure S	\$ 51,643,810
Bond Fund: Measure AA	\$133,999,420
Bond Interest & Redemption Fund	\$ 61,411,725
Student Financial Aid Fund	\$ 38,781,855
Scholarship Trust Fund	\$ 45,298
Auxiliary Operations	<u>\$ 5,531,730</u>
<i>Total Other Restricted</i>	\$332,913,976

TOTAL PROPOSED ADOPTED BUDGET **\$560,151,686**

**The projected unrestricted general fund operating/structural deficit for 2015-2016 is <\$942,959>*

GENERAL FUND

General Fund Unrestricted (01.0)

These are the only funds available for the general operations of the District. All other funds are restricted in use.

Summary

2014-2015

The District closed the 2014-2015 fiscal year with an Unrestricted General Fund deficit, including one-time items, of <\$190,202> (Excluding one-time items, the operating deficit was <\$1,851,658>).

During the year, the District realized one-time revenue items totaling \$1,661,456, net of deficit factor, from sources including mandated cost reimbursements and prior year apportionment payments. Further, the District received a restoration of workload reduction of \$2,142,390 (equivalent to approximately 493 credit and non-credit FTES) and an inflationary adjustment (COLA) of \$895,436 or 0.85%. The largest increase in revenues other than state apportionment was from non-resident tuition and fee-based instruction which increased by \$2,973,192 from the prior year mainly due to increase in FTES and tuition fees. The District was also subject to a deficit factor of <\$344,556> or approximately <0.32%> due to the State's inability to pay the District the entire amount of apportionment it was entitled to. Additionally, the District received \$912,374 to make up for inconsistencies in RDA revenue and related cash flow. Per the Chancellor's Office, this funding will be treated as an advance of the 2016-2017 apportionment payment requiring the District to defer the revenue until the 2016-2017 fiscal year.

Expenditures in the area of salaries increased from prior year by \$6,642,568 while benefit expenditures increased by \$2,107,358 primarily as a result of increases in salary, STRS and PERS contribution rates and class offerings to generate growth. Additionally, the District increased its contribution to the OPEB (*Other Post-Employment Benefits*) Trust fund by \$500,000 as part of a funding plan to address GASB 45 and also experienced increased costs related to other contract services, insurance and utilities of \$464,159.

The combination of these and other items resulted in an unaudited Unrestricted General Fund ending balance, including designated reserves, of \$13,781,577 or 9.15% of expenditures and transfers.

2015-16

The proposed adopted budget is based on the 2015-2016 state budget, updated with the latest information provided by the Chancellor's Office, and assumes a 1.02% inflationary adjustment (*COLA*) increase (\$1,107,892), 2.07% Access/Growth (\$2,096,283 - approximately 449 credit and non-credit FTES), an increase in base of \$4,981,052 for ongoing operating expenditures, \$1,158,443 to support hiring of full-time faculty, \$233,679 to align CDCP rate to credit rate and a 0.93% deficit factor <\$1,097,741>. The proposed adopted budget does not assume repayment of the 2014-2015 deficit factor (<\$344,556>). The District also assumes a one-time funding of \$12,006,317 from the State as payment for prior-year state mandate claims. There is increase in non-resident tuition of \$1,821,760 as a result of a projected 2% increase in FTES and an increase in tuition fee. Fee based tuition is projected to decrease by <\$430,062> as FTES moves back to non-fee based classes. The net effect of the changes in revenues has resulted in a projected \$20,697,395 or 13.8% increase in total revenues from the prior year actuals of which a net \$10,908,576 or 53% is one-time in nature.

The District is projecting expenditure increases of approximately \$13,103,402 or 8.7% compared with prior year actuals. The breakdown of expenditures is as follows: 87.0% on salaries and benefits, 10.9% on other operational expenses and services, 1.2% on equipment, technology replacement and total cost of ownership (TCO), 0.7% on supplies, and 0.2% on transfers/financial aid. For FY 2015-2016, the largest projected expenditure increases are as follows: Supplies and Contracts (\$2,891,062), Salary increases (\$2,552,606), Equipment, technology and TCO replacement (\$1,948,194), Employment/Retirement Benefits (\$1,579,845), Hourly Instruction and Non-teaching (\$1,244,073), Vacancy List (\$1,242,570), Salary Step and Longevity (\$995,896), Other Post-Employment Benefits (*OPEB*) contribution (\$500,000) and Current Employee and Retiree Health and Welfare Benefits (\$491,740).

The net effect of the projected changes in revenue and expenditures will result in a projected operating surplus, including one-time items, of \$7,403,791 and a projected ending Unrestricted General Fund Balance of \$21,185,368, including designated reserves, or 12.94% of total expenditures and transfers.

Revenues

Federal Revenue

The federal revenue levels for FY 2015-2016 represent projected federal grant administrative allowances including ACA allowances for Financial Aid programs.

State Revenue – Principal Apportionment

State funding, in the form of Principal Apportionment, constitutes 68% (\$116,862,828) of the District's operating revenue. The calculation for Principal Apportionment is based on the number of FTES (*Full Time Equivalent Students*) the District serves, but is capped based on the state adopted budget. The District receives Principal Apportionment through a combination of direct State funds known as General Apportionment, coupled with enrollment fees, property taxes (*including Redevelopment Agency Funds*) and the Education Protection Account (*EPA*), which was created as a result of the passage of Prop 30. These funds are combined to equal the Principal Apportionment. If actual receipts of revenue from EPA, Redevelopment Agency (*RDA*), property taxes and/or enrollment fees differ from estimates, the general apportionment funding will be adjusted, subject to availability of state funding, to keep the formula constant.

The District has based its Principal Apportionment revenue projections on the state budget which includes 2.07% access/growth funding. This will result in the District being funded by the State to serve approximately 21,343 Credit FTES in FY 2015-2016. As of the proposed adopted budget, the target is to serve approximately 21,397 Credit FTES, which is 54 FTES more than the State is funding the District to serve.

State Revenue – Other

The proposed adopted budget includes an inflationary adjustment (*COLA*) of 1.02%. All other State Revenue categories are projected to remain at approximately the same level as FY 2014-2015.

Property Taxes

Based on preliminary projections, the District will receive \$20,263,813 in property tax in 2015-2016. This is a combination of property tax shift, homeowner's exemption, secured taxes, unsecured taxes, supplemental taxes, RDA pass through and prior years' taxes. If the receipt of property tax does not meet these projections, the State may impose a further workload reduction or deficit factor to offset the resulting loss in funding.

Lottery

The State Lottery revenues are paid each year according to the annual enrollment figures. The projected FY 2015-2016 non-Prop 20 lottery rate is \$140 per FTES. If lottery sales or enrollment fall below projections, lottery revenue will be adjusted accordingly.

Local Revenues

The Local Revenue section of the budget contains the District's largest revenue sources outside of Principal Apportionment, Non-resident Tuition. The non-resident tuition line item includes both revenue generated from non-resident tuition and revenue from special Intensive ESL classes for international students. The District's increase in non-resident tuition fee and projected increase in FTES is expected to result in a revenue increase of \$1,821,760 over prior year actual. The remaining local revenue categories include property taxes, enrollment fees, fee based instruction, student fees, interest, rental of facilities, etc.

Expenditures

Salary and Benefits

Salary and benefit expenditure projections reflect appropriate step, column and longevity increases for qualified employees and include a negotiated increase of 2.2% in the salary of SMC Faculty Association Members and 0.457% in the salary of SMCPOA Members. For the proposed adopted budget, changes in salary, benefit and vacancy line items account for approximately \$8,176,396 increase in expenditures from prior year actuals. For FY 2015-2016, salaries and benefits represent 87% of total expenditures and transfers for the District's unrestricted general fund, which represents a 2% decrease from the prior year.

Supplies, Services, Capital and Transfers

Supplies, Services, Capital and Transfer expenditure projections reflect departmental requests based on operational needs. For the proposed adopted budget, changes in these line items account for an increase of approximately \$3,684,235 over prior year adopted budget allocations. Of this increase \$1,948,194 is allocated for technology equipment replacement, general equipment, equipment related to the IT business continuity project and TCO; \$1,540,861 is allocated to contracts/services for items such as increased advertising, IT business continuity site rental, licenses for servers and a student module and implementation; and \$119,043 is allocated for supplies for items such as new phones and specialized air filters. For FY 2015-2016, supplies, services, capital and transfers represent 13% of total expenditures and transfers for the District's unrestricted general fund.

The largest line item of non-salary and benefit related expenditure is contracts/services. The Contracts/Services line item in the adopted budget includes: Rents/Leases (*Performing Arts Center, Swimming Pool, Big Blue Bus*) 18%, Bank Fees and Bad Debt 11%, Advertising 10%, Other Contract Services 10%, Repairs and Maintenance of Equipment 10%, Software Licensing 7%, Consultants 5%, Legal Services (*including Personnel Commission*) 4%, Online Course Management System 4%, Postage and Delivery Services 3%, Conferences and Training 3%, District Copiers 3%, Off-Campus Printing 3%, LACOE Contracts (*i.e. PeopleSoft, HRS*) 2%, Professional Growth 1%, Memberships and Dues 1%, Audit 1%, Recruiting-Students 1% and Other Services (*i.e. Mileage, Fingerprinting, Board Meetings, Field Trips, etc.*) 3%.

Designated Reserves

The Designated Reserves serve to allocate a portion of the projected ending unrestricted fund balance towards future anticipated expenditures and/or purposes. Designated Reserves help to maintain fiscal stability by recognizing the future expenditure and its possible effect on future fund balances. For 2015-2016, there are three line items in the Designated Reserves including the Classified Employee Welfare Fund, New Faculty To Be Hired and a Reserve for Future STRS and PERS increases. The "Classified Employee Welfare Fund" was established as part of the Districts health benefit plan changes for the sole purpose of providing reimbursement to CSEA unit members who changed health plans in 2011 from PERSCare to a non PERSCare plan offered by the District and who incurred expenses for health care that would have been covered by PERSCARE and were not covered by the new insurance plan. The "New Faculty To Be Hired" line item represents the projected cost to hire new faculty in the next fiscal year. For 2016-2017, a total of \$1,945,604 has been allocated in the 2015-2016 budget to hire 22 new faculty. The "Reserve for Future STRS and PERS Increases" line item has been established to partially offset projected increases in District STRS and PERS contributions through 2020-2021.

RESTRICTED FUNDS

General Fund Restricted (01.3)

This fund represents restricted funding that is received by the District from Federal, State and Local sources. All grants that do not end by June 30, 2016 will be carried over to the FY 2016-2017 budget, if permissible.

The ending fund balance contains prior year balances from the following programs: Lottery, Contract Education, Parking, Community Services, Health and Psychological Services and the SMC Performing Arts Center. These balances represent revenue recognized and earned in prior years in excess of expenditures and are unavailable for transfer to other programs or funds.

When received, new grants will be presented to the Board of Trustees for approval, and the District's budget will be augmented to reflect the increase.

Special Reserve Fund (40.0) Capital

This fund is also known as the Capital Expenditures Fund. The major source of revenue for this fund is the non-resident capital surcharge. These funds are used for capital outlay related projects, including the installment payments for the AET Certificate of Participation and any expenditures for scheduled maintenance/physical plant, special repair projects and architectural barrier removal. State funding for capital projects is also accounted for in this fund.

All capital expenditures and revenue in the Special Reserve Fund, as well as Fund 42.2, 42.3, and 42.4 reflect the total expenditure allocation and the total revenue for all

projects, and are not limited to the current year, thus resulting in a zero ending balance. Money in these funds may not be transferred into the general fund.

Bond Fund Measure U (42.2)

This fund reflects the revenue from the sale of bonds approved through Measure U and the interest earned in the fund. The expenditures in this fund relate to the District's construction plan approved under Measure U.

Bond Fund Measure S (42.3)

This fund reflects the revenue from the sale of bonds approved through Measure S and the interest earned in the fund. The expenditures in this fund relate to the District's construction plan approved under Measure S.

Bond Fund Measure AA (42.4)

This fund reflects the revenue from the sale of bonds approved through Measure AA and the interest earned in the fund. The expenditures in this fund relate to the District's construction plan approved under Measure AA.

Bond Interest and Redemption Fund (48.0)

This fund is administered by the Los Angeles County Auditor-Controller's Office and reflects the receipt of property tax revenue due to voted indebtedness for bond issues and the payment of interest on those bonds plus the redemption of the bonds that mature within the 2015-2016 fiscal year. This information is provided by the Los Angeles County Treasurer's Office through the Los Angeles County Office of Education.

Student Financial Aid Fund (74.0)

This fund consists of all student financial aid programs (*PELL, SEOG, Loans and Cal Grants*). The transfer line items reflect a transfer from the Unrestricted General Fund to meet the match requirements of the individual grant programs.

Scholarship Trust Fund (75.0)

This fund is to account for gifts, donations bequests, and devises (*subject to donor restrictions*) which are to be used for scholarships or for grants in aid to students.

Auxiliary Operations

This budget reflects the revenue and expenditures of the auxiliary operations of the District, the Bookstore, the food and vending concessions, and college expenditures in programs such as Athletics, Music, Theatre Arts, the *Corsair* student newspaper and transportation.

CONCLUSION

This is the recommended budget for adoption. While it reflects the best information currently available, it is expected that changes will occur during the year. Some changes will be the result of revised state revenue allocations based on changes in the state budget and others will be internal adjustments resulting from new or updated information.