



Understanding Community College Finance: What a MSJC Leader Needs to Know

**President's
Leadership
Academy**

10/31/2024



Budget

A plan for the coordination of resources & expenditures over a definite period of time based on estimates of the amount of money that is available for, required for, or assigned to a particular purpose.

Environments of Public Budgeting



Political

- Board of Trustees
- Feedback from Citizens
- Internal Constituencies



Economic

- Recessions & Expansions
- Inflation & Changes in Interest Rates



Social

- Population Change
- Age Distribution
- Personal Income



Legal

- Requirements for Budgetary Balance
- Mandates
- Authority



Ongoing vs. One-time Funds

Ongoing Funds are funds projected to continue into the foreseeable future

- **Examples**

Revenues: property taxes; state general apportionment; local fees

Expenses: permanent staffing; supplies/equipment; utilities; insurance

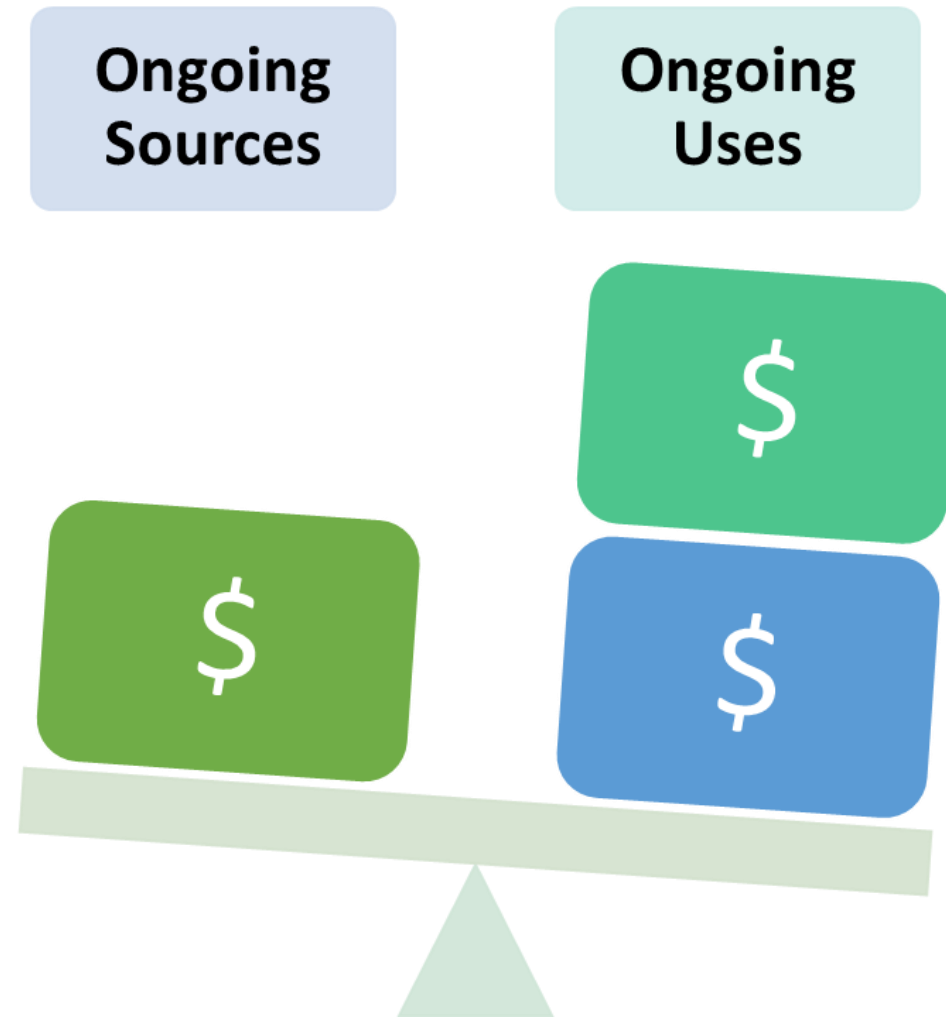
One-time Funds are funds projected to be discontinued in the foreseeable future

- **Examples**

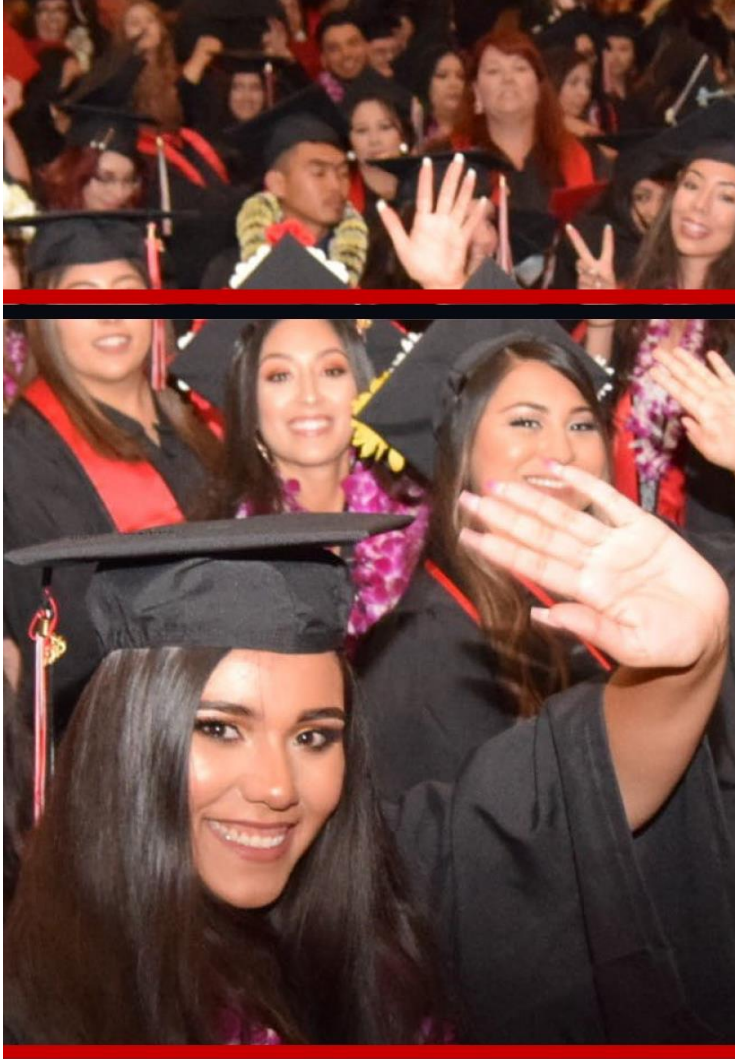
Revenues: beginning fund balance; salary savings; grant funding; bond proceeds

Expenses: temporary staffing; capital asset acquisition; projects

Definition of Structural Budget Deficit



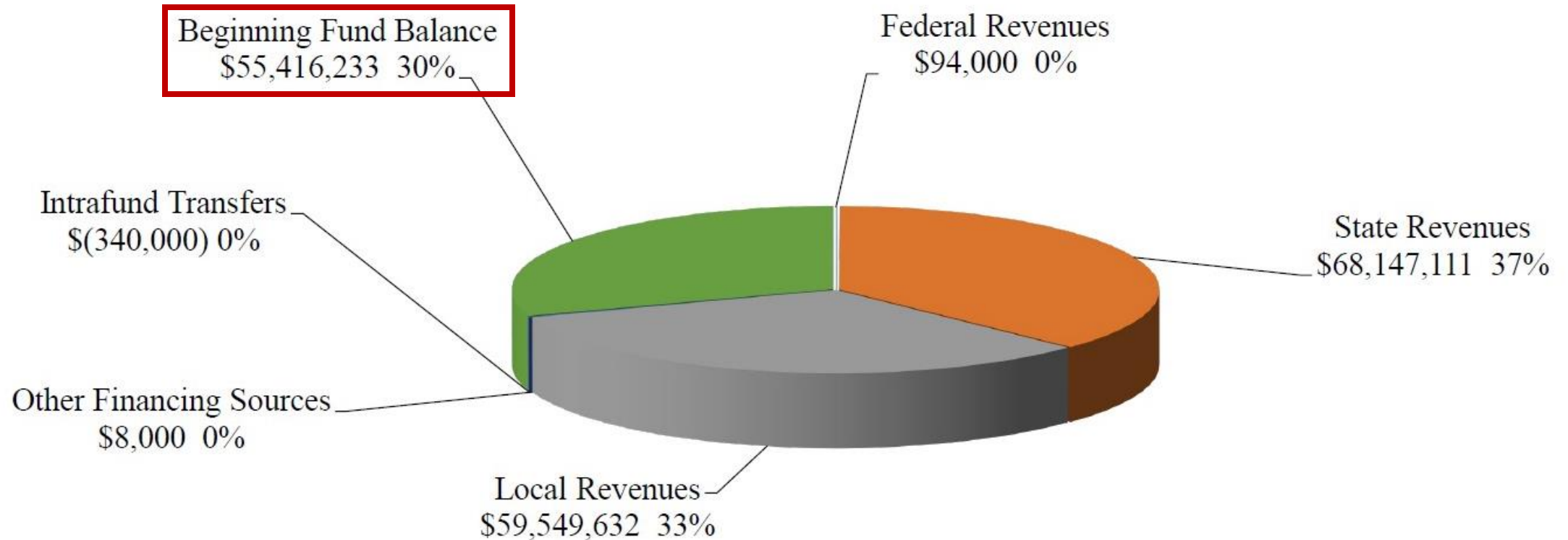
MSJC 2024-25 Adopted Budget Overview



Fund	Description	
11	General -- Unrestricted	\$ 182,874,976
11	BOT Special Reserve	\$ 29,188,278
12	General -- Restricted	\$ 57,173,018
12	Parking	\$ 1,366,219
12	Health Center	\$ 1,928,675
12	Instructional Equipment Block Grant	\$ 2,573,810
32	Cafeteria	\$ 4,000,201
33	Child Development	\$ 2,178,459
41	Capital Outlay Projects	\$ 47,029,783
43	Bond Projects	\$ 20,840,943
61	Self-Insurance	\$ 6,832,150
71	Student Government Association	\$ 789,065
72	Student Representation Fee	\$ 161,039
74	Student Financial Aid	\$ 43,022,517
79	Foundation	\$ 8,678,611
TL	Total	\$ 408,637,744

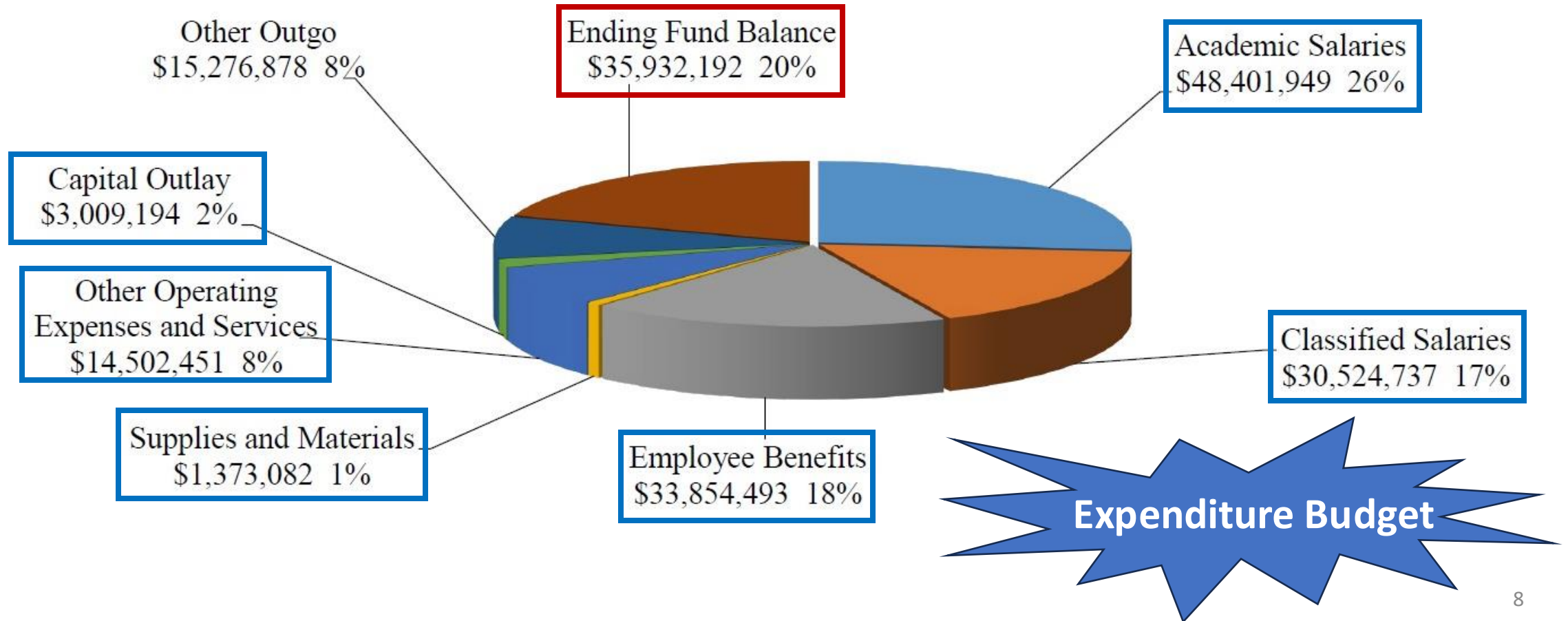
2024-25 MSJC Adopted Budget Sources

General Fund 11 Unrestricted Revenues and Beginning Fund Balance: \$182,874,976



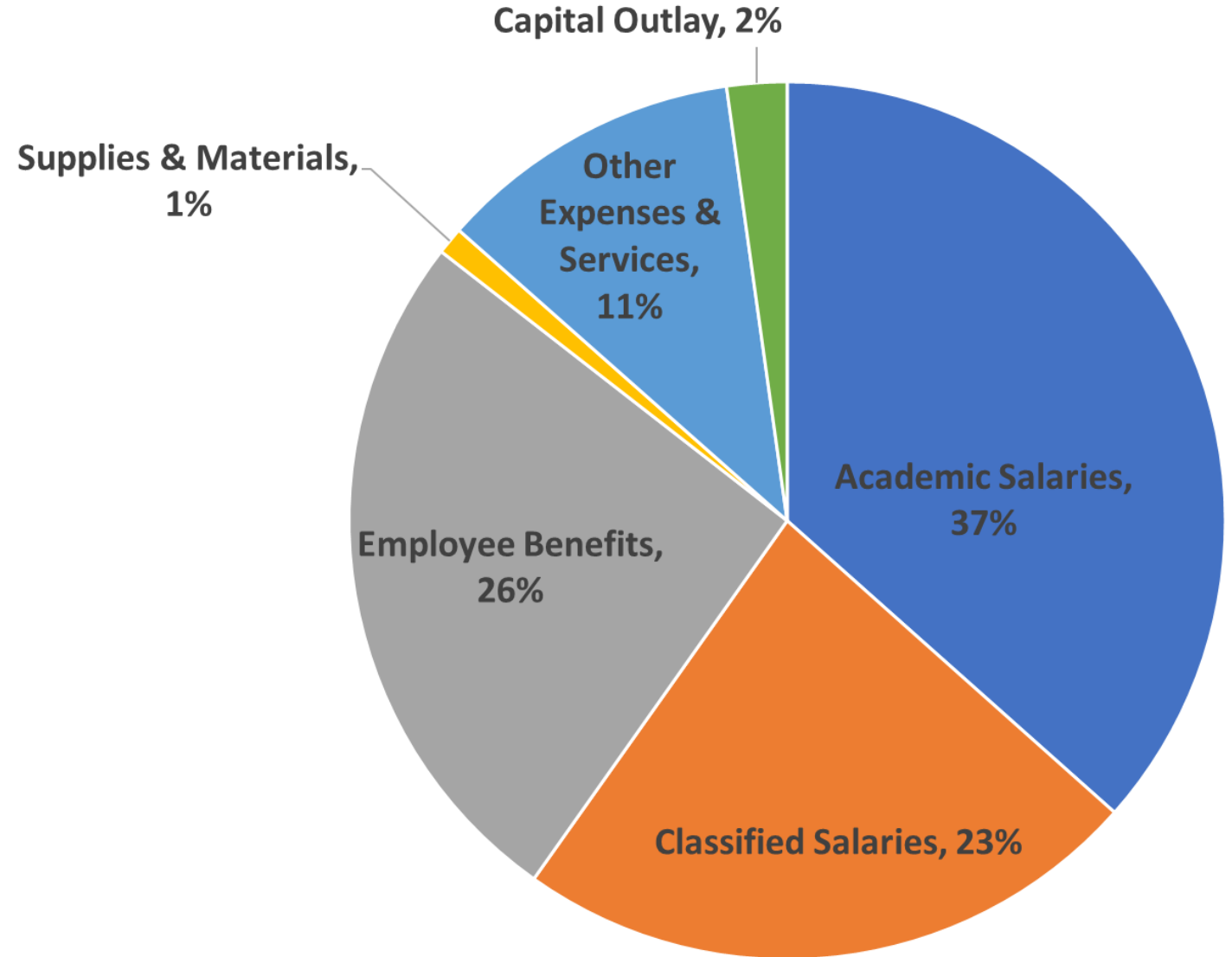
2024-25 MSJC Adopted Budget Uses

General Fund 11 Unrestricted Expenditures and Ending Fund Balance: \$182,874,976



2024-25 MSJC Adopted Budget Expenditures by Percent

86% Employee Salary & Benefits
14% All Other Expenses





50% Law



"There shall be expended during each fiscal year for payment of **salaries of classroom instructors** by a community college district, 50 percent of the district's **current expense of education.**"

(EDC §84362(d); Emphasis Added to Terms Defined in 5 CCR §59204)



50% Law: Wrong Side v. Right Side Spending



Wrong Side

- Insurance
- Legal, Election, & Audit
- Utilities
- Services
- Rents, Leases, & Maintenance
- Non-Classroom Personnel Compensation
- Faculty Release Time
- Conferences, Travel
- Consultants
- Supplies, Materials, & Printing

Right Side

- Classroom Instructor/IA Compensation



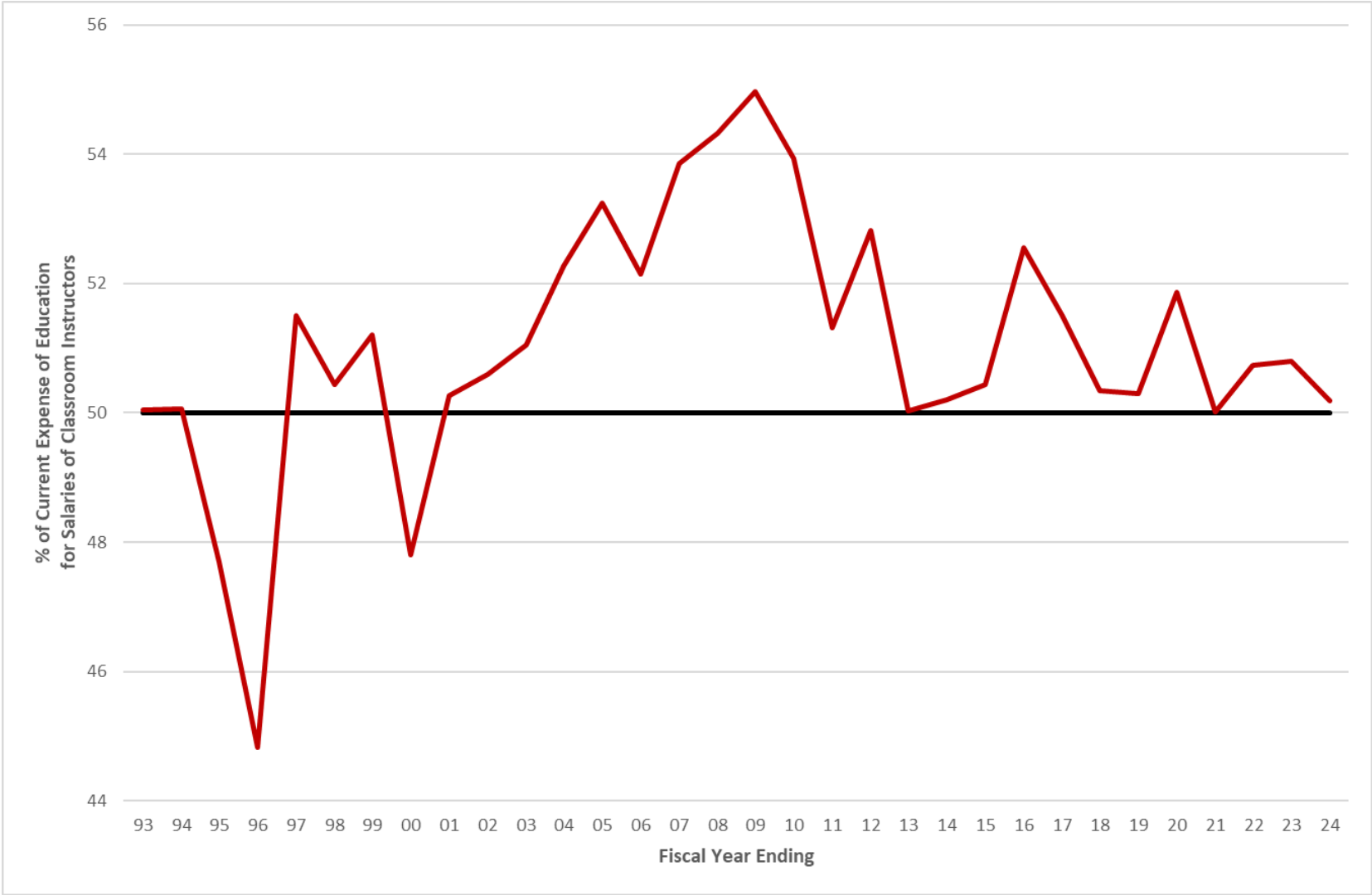
$\geq 50\%$



50% Law Context

- Originally enacted in 1961.
- Enacted before collective bargaining was implemented for community college districts in the 1970s.
- "The policy judgment underlying this bill is that school districts are **expending too much money** on administration and **on student counseling and guidance services**. It is believed that the need for extensive counseling and administrative services would be substantially reduced if the classroom teacher was not confronted with overly large classes..." (Correspondence from Legislature to the Governor, 1961, emphasis mine)

MSJC 50%
Law
Performance




Failure to Comply with 50% Law

Failure to comply may result in deduction from apportionments made to the district an amount equal to the amount by which the district failed to comply.
(5 CCR §59214)



A person in a blue shirt and tie is counting a stack of US dollar bills. In front of them on a white table are two more stacks of US dollar bills. The scene is dimly lit, and the overall tone is professional and financial.

Apportionment of State Funds



Student Centered Funding Formula (SCFF)

Three components reflecting access, equity, and success.

I. Base Allocation

- Basic Allocation: *District Configuration*
- *FTES (3-year average for credit)*

II. Supplemental Allocation

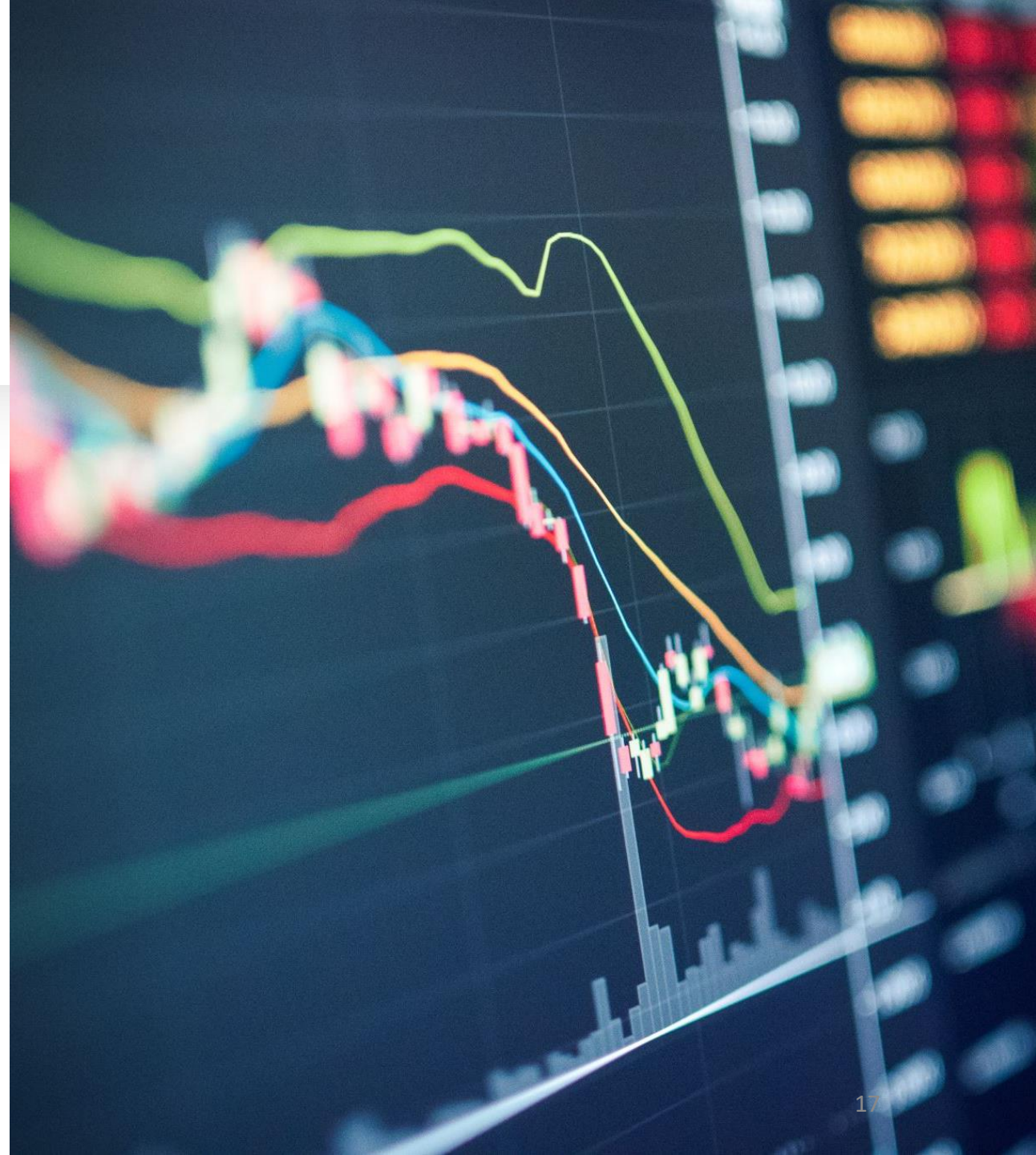
- *Prior year headcounts for AB540, Pell Grant, & Promise Grant students*

III. Success Allocation

- *Prior 3-year average headcounts for all students, Pell Grant recipients, and Promise Grant recipients who complete/acquire:*
 - degrees, certificates, or transfer-level math/English courses
 - transfer to 4-year university
 - 9 or more CTE units
 - regional living wage

Cost of Living Adjustment (COLA)

- An adjustment to revenue to ensure purchasing power is not eroded by inflation.
- "[U]nless otherwise specified in the annual Budget Act, **the cost-of-living adjustment shall be the percentage change in the annual average value of the Implicit Price Deflator for State and Local Government Purchases of Goods and Services for the United States, as published by the United States Department of Commerce for the 12-month period ending in the third quarter of the prior fiscal year.**" (EDC §84750.4(b)(3), emphasis added)
- The result of the calculation in bold type above is called the **statutory COLA**.



Enrollment & Apportionment Reporting

	...LAST YEAR			CURRENT FISCAL YEAR												NEXT YEAR...								
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	
P2	DUE																							
Advance				RPT																				
P1										DUE														
P1											RPT													
P2													DUE											
P2															RPT									
Annual																DUE								
Recal																					DUE			
Recalculation																								RPT

Enrollment Reports Actual Projection

Apportionment Reports Payment Schedule

Report Due to CCCCCO DUE

Report Received from CCCCCO RPT

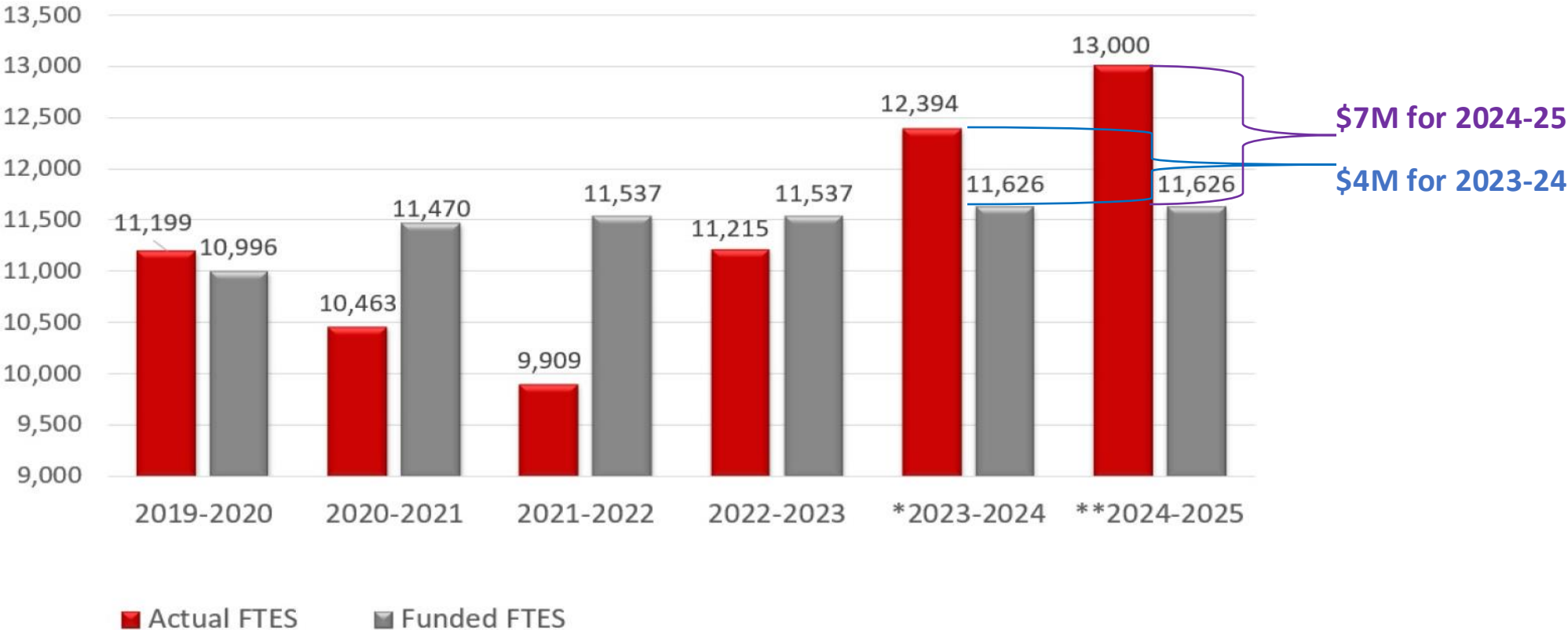
FTES Growth Authority

District growth rates are determined by CCCCCO based on the following factors:

- **Rates of change in the District's primary county population** of persons between the ages of 19 & 24 and persons between the ages of 25 & 65
- An adjustment based upon the **District's primary county unemployment** rate exceeds 5%
- Further adjustment based on the number of **FTES in the areas of transfer, career technical education, & basic skills that were unfunded** in the current fiscal year

(5 CCR §58774)

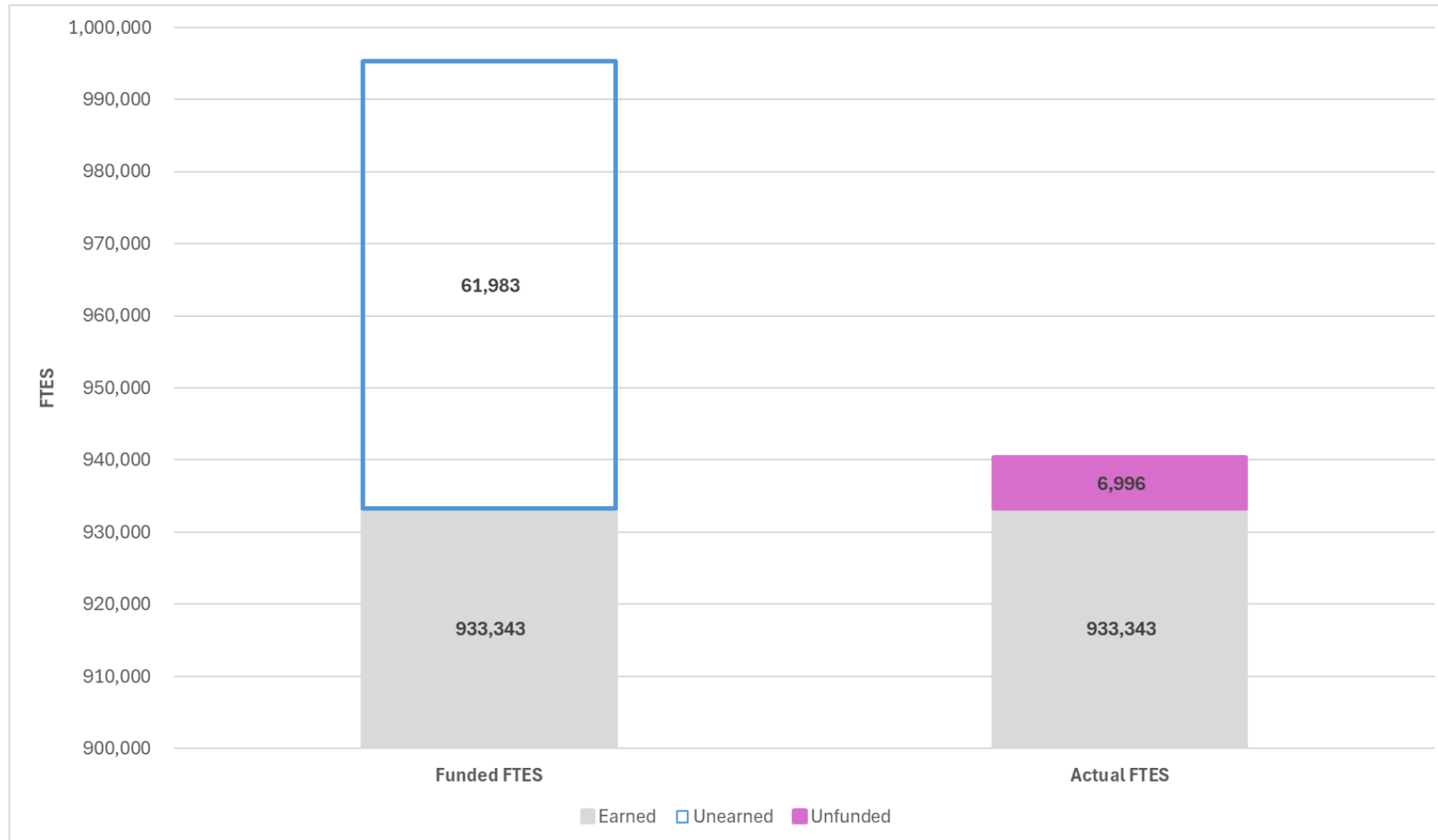
2024-25 Adopted Budget FTES v. Historical Trends



**Based on the Chancellor's Office 2023-24 P2 report released on 6/19/24*
***FY 2024-2025; actuals based on projected FTES, funded based on budgeted FTES*

Funded Fiction v. Unfunded Reality

2023-24 System P2 Report



Stability Funding

A decrease in a community college district's SCFF revenue "shall result in the associated reduction beginning in the year following the initial year of decreases, adjusted for changes in the cost-of-living adjustment."

(EDC §84750.4(g)(4)(A))

	2022-23 Recalc		2023-24 P1
<i>I. Base</i>	\$69,564,246		\$78,763,289
<i>II. Supplemental</i>	\$19,598,177		\$23,557,735
<i>III. Success</i>	\$12,469,451		\$13,967,719
SCFF Revenue (A)	\$101,631,874		\$116,288,743
Stability (B)	\$91,945,809	+ 8.22% COLA	\$109,986,014
Hold Harmless (C)	\$84,923,862		\$91,904,603
TCR (Max of A, B, C)	\$101,631,874		\$116,288,743

Hold Harmless Funding: 2018-19 to 2024-25

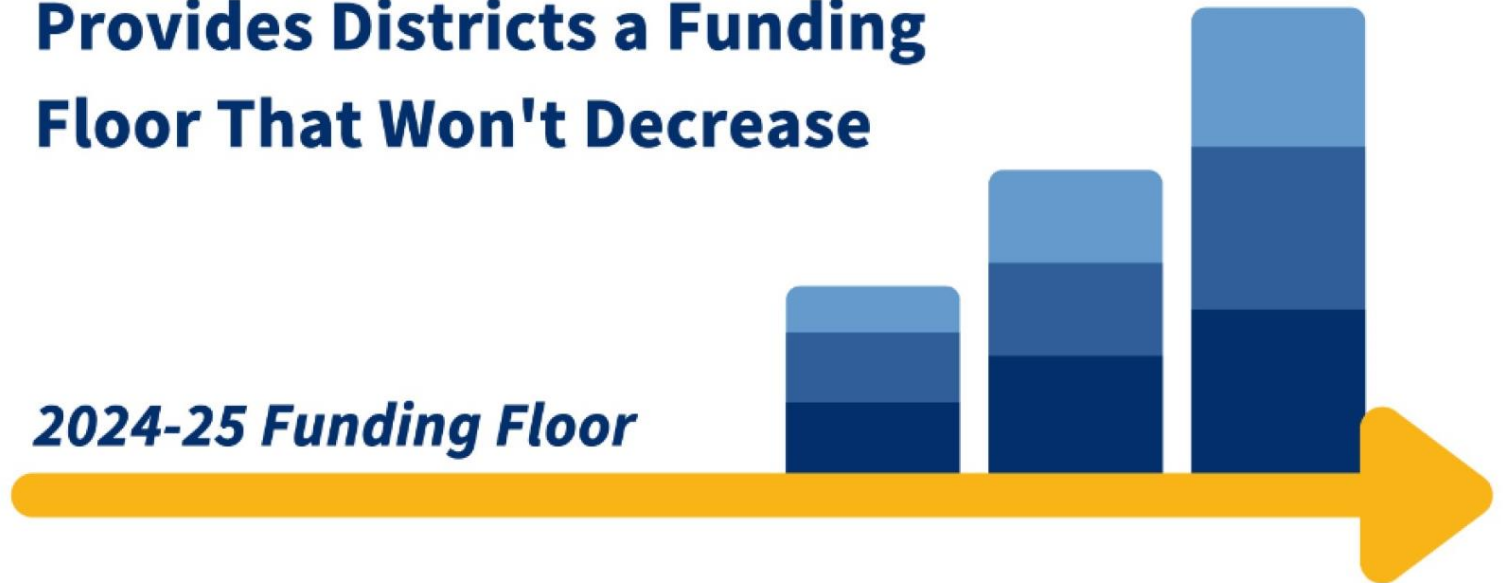
For the fiscal years 2018-19 to 2024-25, inclusive, each community college district shall not receive less than its 2017-18 general purpose apportionment funding adjusted for annual year-over-year cost-of-living adjustments. (EDC §84750.4(h)(1))

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Hold
Harmless
Funding:
2025-26 &
Beyond

Predictability & Stability

Provides Districts a Funding
Floor That Won't Decrease



WARNING: No longer adjusted for COLAs!

Deficit Factor

If local property taxes, student enrollment fees, State general fund appropriations, and other local tax revenues allocated to community college districts for general operating support are less than the TCR amounts computed for all districts for the fiscal year, the Chancellor shall apportion state aid by reducing the amount computed for each district by a **deficit factor** to conform to the statewide total revenue available. (5 CCR §58779, emphasis added)

2023-24 P2	
<i>I. Base</i>	\$78,113,443
<i>II. Supplemental</i>	\$23,557,735
<i>III. Success</i>	\$13,896,348
SCFF Revenue (A)	\$115,567,526
Stability (B)	\$109,986,014
Hold Harmless (C)	\$91,904,603
TCR (Max of A, B, C)	\$115,567,526
8.7404% Deficit Factor	\$(10,101,046)
Available Revenue	\$105,466,480

What an MSJC Leader Needs to Know

- Funding **ongoing expense** with **one-time revenue** results in **structural budget deficits** that erode the financial health of an organization over time
- **86%** of MSJC's Unrestricted General Fund Expenditure Budget is devoted to **Employee Salaries & Benefits** – *all other expenses comprise only 14%*
- Each new dollar of **wrong-side** spending requires at least another new dollar of **right-side** spending to remain compliant with **50% law**
- MSJC is serving an unprecedented number of **unfunded FTES** representing services worth over **\$4M for 2023-24** and a **projected \$7M for 2024-25** for **which MSJC will not be paid**
- **Final apportionment entitlement for the current fiscal year** will not be known until **February of the next fiscal year**
- When apportionment entitlements exceed funding made available through the State Budget Act, **CCCCO reduces apportionments** to conform to the statewide total revenue available by applying a **deficit factor**



Questions?



References

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