

Understanding Community College Finance

Management/Leadership
Development Seminar

October 4, 2023

MSJC | Mt. San Jacinto
College

Presentation Outline

- Evolution of Community College Revenue Generation
- Apportionment of State Funds
- 2023-2024 State Budget
- 2023-2024 MSJC Budget

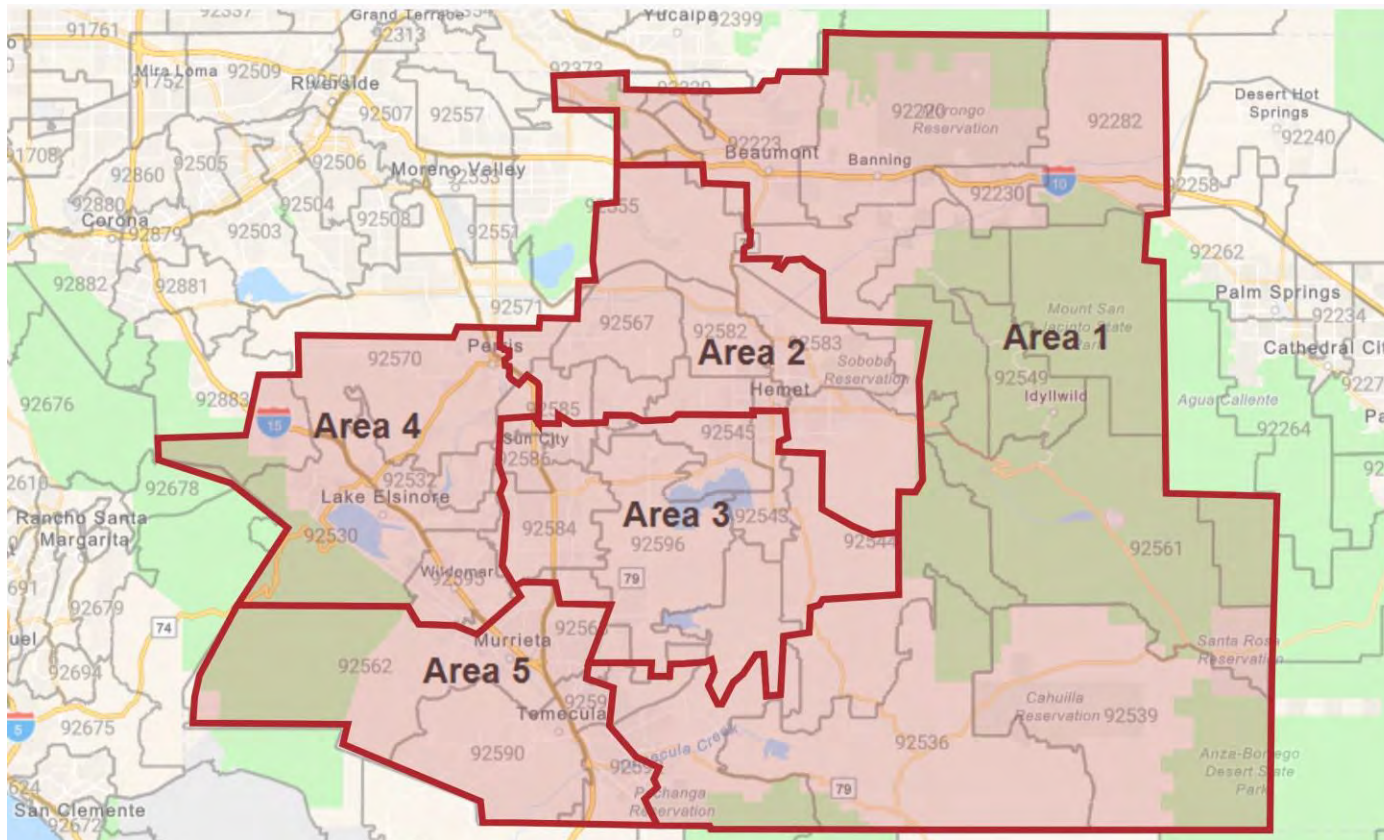




Evolution of Community College Revenue Generation



Evolution of Community College Revenue Generation



Prior to the 1970s, Community College revenues were largely derived from property taxes collected in the District.

Evolution of Community College Revenue Generation

- **1968: Serrano v. Priest filed in Los Angeles Superior Court**
 - Alleged CA school funding system violated state and federal equal protection provisions
 - Baldwin Park Unified School District
 - AV/Child = \$3,706
 - Expenditure/Child = \$577.49 (15.58% of AV)
 - Pasadena Unified School District
 - AV/Child = \$13,706
 - Expenditure/Child = \$840.19 (6.13% of AV)
 - Beverly Hills Unified School District
 - AV/Child = \$50,885
 - Expenditure/Child = \$1,231.72 (2.42% of AV)
- **1972: SB90 – Revenue Limits for CA Public Schools**
 - Placed ceilings on the amount of tax money each district could receive per pupil
 - Intended to reduce wide differences in school funding between high & low property-wealth districts

Evolution of Community College Revenue Generation

- **1976: Serrano v. Priest – California Supreme Court Decision**
 - Existing system of school funding violated equal protection clause of State Constitution
 - Required equalization of property tax rates and per pupil expenditures
- **1977: AB 65 – Differential Revenue Limit Inflation Adjustments**
 - Created annual inflation adjustment to equalize revenues over time
 - Higher revenue limit inflation increases provided to districts with lower revenue
 - Lower revenue limit inflation increases provided to districts with high revenue
- **1978: Proposition 13 – Jarvis Amendment**
 - Limits property taxes to 1% of property's assessed value
 - Caps increases in assessed value to at most 2% annually
 - Mandates 2/3 vote for approval of new taxes, such as parcel taxes
- **1979: AB 8 – Legislative Response to Proposition 13**
 - Established formula for dividing property taxes among cities, counties, & school districts
 - State replaced lost property taxes & effectively took control of school district funding



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

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 CCCC DUE

Report Received from CCCC RPT

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)

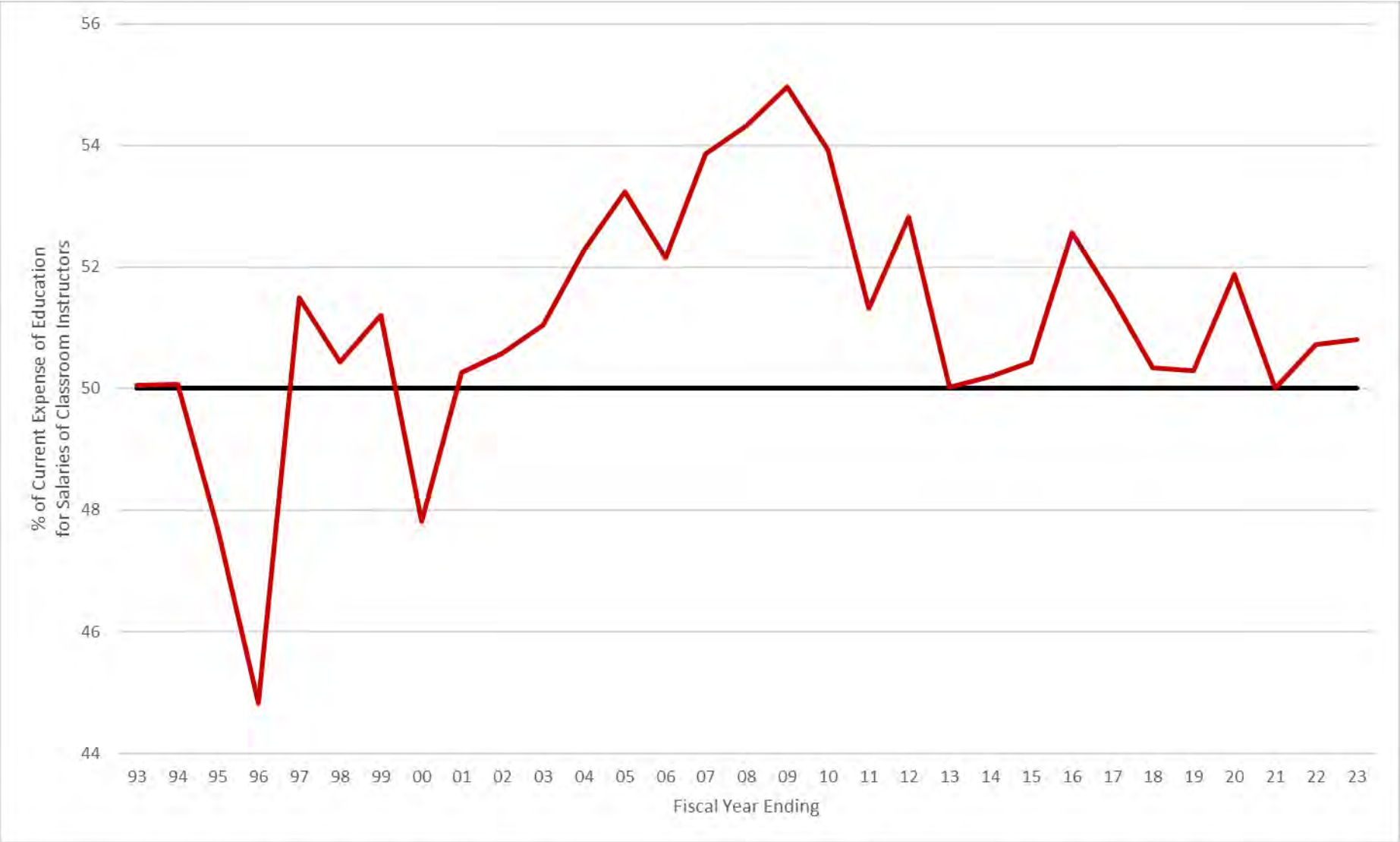
	22/23 P2
<i>I. Base</i>	\$69,564,246
<i>II. Supplemental</i>	\$19,598,177
<i>III. Success</i>	\$12,469,451
SCFF Revenue (A)	\$101,631,874
Stability (B)	\$91,945,809
Hold Harmless (C)	\$84,923,862
TCR (Max of A, B, C)	\$101,631,874
10.827% Deficit Factor	\$(11,003,647)
Available Revenue	\$90,628,227

50% Law: EDC §84362(d); 5 CCR §59204

"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)

Wrong Side	Right Side
<ul style="list-style-type: none">• Salaries & Benefits of those who are not Classroom Instructors or IAs• Supplies, Materials & Printing• Consultants• Conferences, Travel• Membership & Dues• Insurance• Utilities• Rents, Leases, & Maintenance• Legal, Election, & Audit• Other Operating Expenses & Services	<ul style="list-style-type: none">• Salaries & Benefits of FT/PT Classroom Instructors & IAs

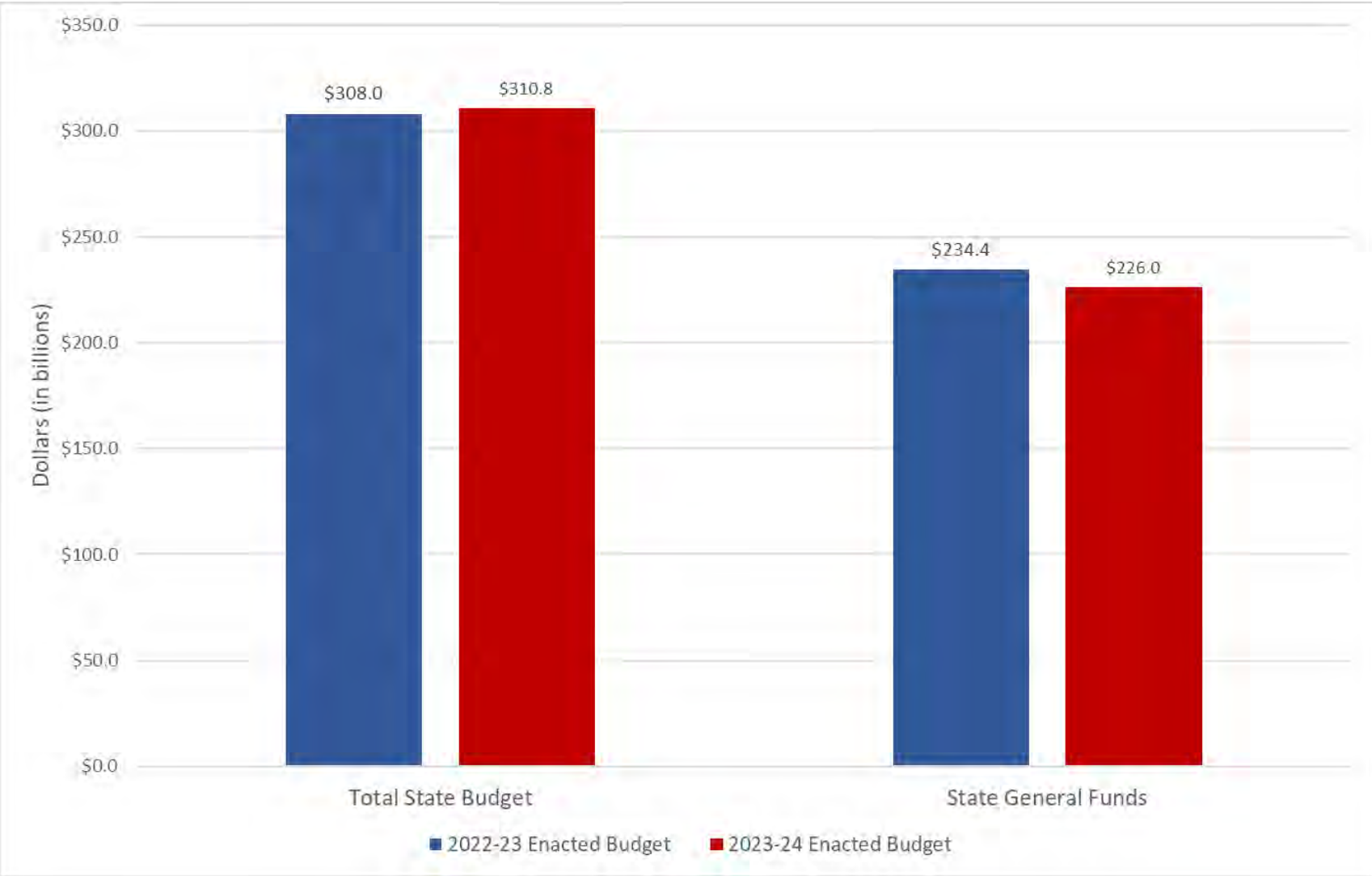
MSJC 50% Law Performance





2023-2024 State Budget

State Enacted Budget: 2023-2024 vs. 2022-2023



2023-2024 State Enacted Budget Features

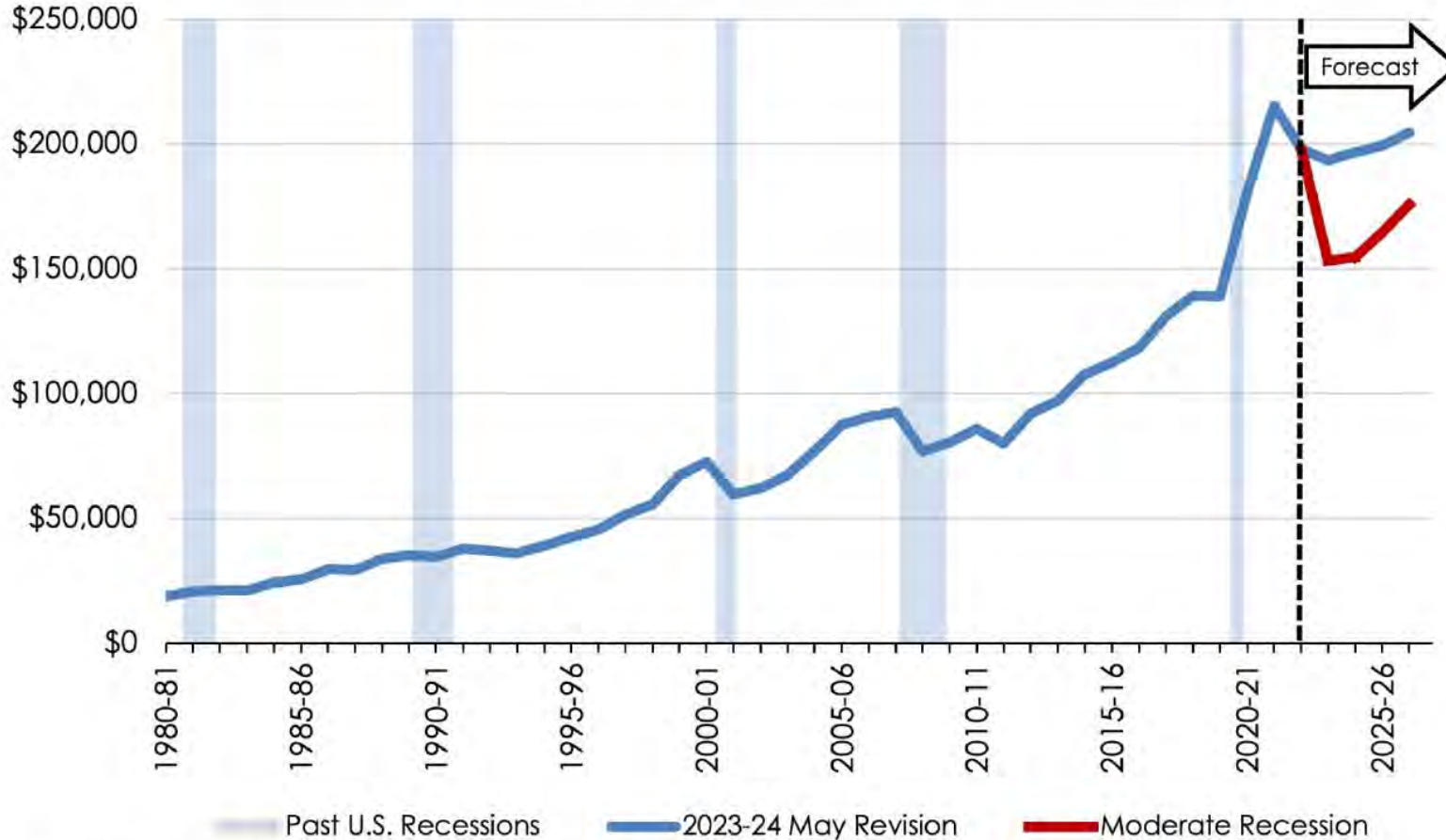
- Prioritizes education, health care, affordable housing, *transit*, climate, *public safety*, and *infrastructure*
- Assumes a slowing, but growing economy
- \$37.8B in total budgetary reserves
- **Projected \$31.74B budget gap**
 - \$8.1B: Reductions/Pullbacks
 - \$0.34B: Trigger Reductions
 - \$7.9B: Delayed Spending
 - \$9.3B: Fund Shifts
 - \$6.1B: Revenue Generation/Borrowing

California's State Budget Reserves: \$37.8B

	Established in State Constitution		Established in State Law	
	Budget Stabilization Account (BSA)	Public School System Stabilization Account (PSSSA)	Safety Net Reserve	Special Fund for Economic Uncertainty (SFEU)
Balance?	\$22.3B	\$10.8B	\$0.9B	\$3.8B
When can funds be withdrawn?	Gov. declares budget emergency & leg. passes bill to withdraw funds	Gov. declares budget emergency & leg. passes bill to withdraw funds	Leg. may withdraw funds at any time by majority vote	Leg. may withdraw funds at any time by majority vote
Limit on withdraw amount?	Yes, lower of: amount needed to address budget emergency or 50% of funds in BSA, unless funds withdrawn in prior year in which case all remaining funds may be withdrawn	No	No	No
How can withdrawn funds be used?	Funds may be used for any purpose	Funds must be used to support K-14	Intended to maintain existing CalWORKs & MediCal benefits & services, but may be used for any purpose leg. chooses	Funds may be used for any purpose

FY 2023-2024 Moderate Recession Scenario

Big Three Revenues in a Moderate Recession
(Dollars in Millions)



Shaded areas indicate previous U.S. recessions.
Source: California Department of Finance, 2023-24 May Revision Forecast.

Moderate Recession Definition

- Drop in S&P 500 to around 2,900
- Capital Gains realizations dropping to \$103B in 2024

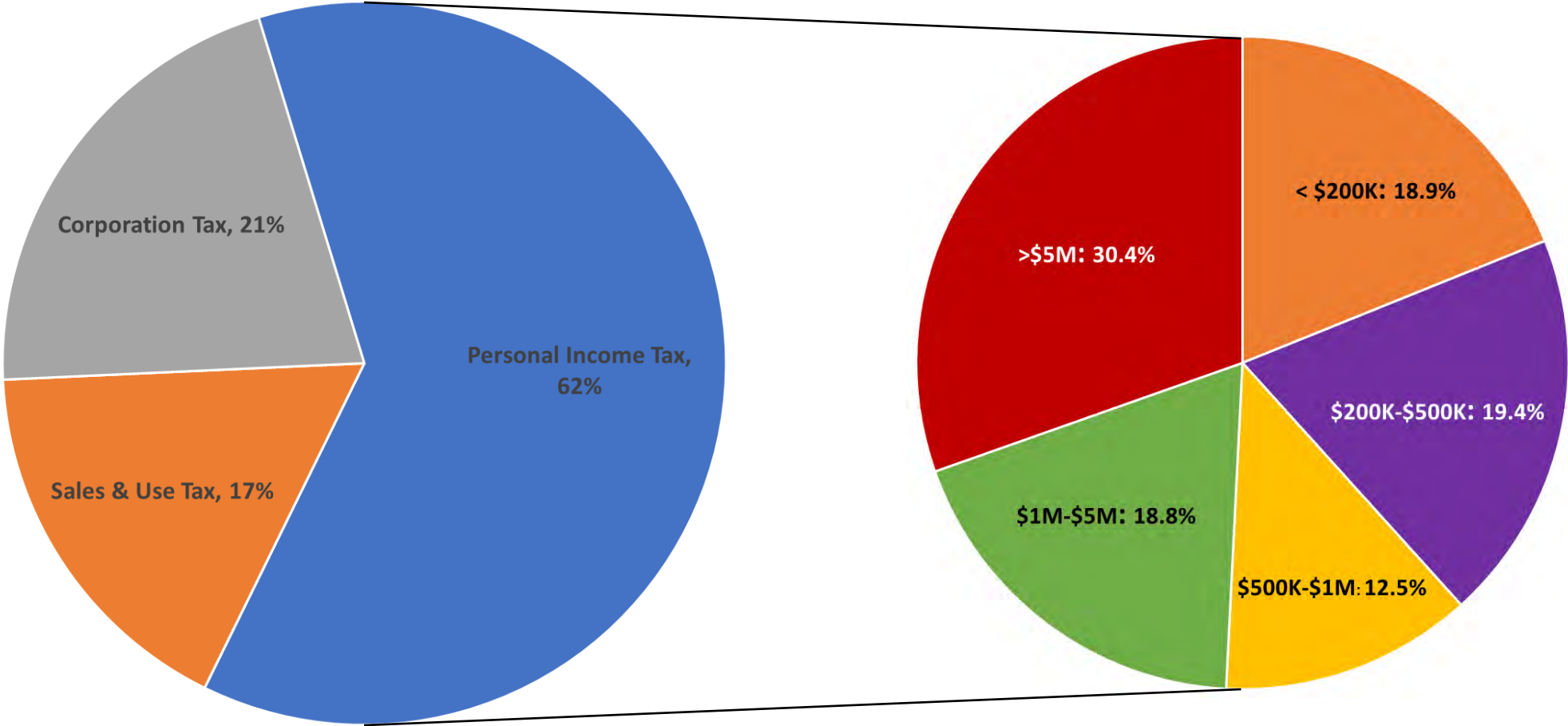
Forecasted Impact

- \$40B revenue decrease in 2023-2024 alone
- Revenue declines could reach an additional \$100B through 2026-2027

Observation

- State revenues increasingly sensitive to economic disturbances
- Forecasted revenue decrease exceeds totality of State's \$37.8B reserve funds

Big 3 Revenues & Personal Income Tax Distribution



In 2020, Marin, San Francisco, San Mateo, & Santa Clara counties accounted for 31% of all personal income tax paid.

Education Protection Account (EPA)

- Proposition 30 (2012) creates State **Education Protection Account (EPA)** and funds it with temporary tax increases:
 - 0.25% sales tax increase from 01/01/2013 to 12/31/2016
 - Increases personal income tax rates on higher incomes from 2012 to 2018

Single Filer's Taxable Income ^a	Joint Filers' Taxable Income ^a	Head-of-Household Filer's Taxable Income ^a	Current Marginal Tax Rate ^b	Proposed Additional Marginal Tax Rate ^b
\$0-\$7,316	\$0-\$14,632	\$0-\$14,642	1.0%	—
7,316-17,346	14,632-34,692	14,642-34,692	2.0	—
17,346-27,377	34,692-54,754	34,692-44,721	4.0	—
27,377-38,004	54,754-76,008	44,721-55,348	6.0	—
38,004-48,029	76,008-96,058	55,348-65,376	8.0	—
48,029-250,000	96,058-500,000	65,376-340,000	9.3	—
250,000-300,000	500,000-600,000	340,000-408,000	9.3	1.0%
300,000-500,000	600,000-1,000,000	408,000-680,000	9.3	2.0
Over 500,000	Over 1,000,000	Over 680,000	9.3	3.0

^a Income brackets shown were in effect for 2011 and will be adjusted for inflation in future years. Single filers also include married individuals and registered domestic partners (RDPs) who file taxes separately. Joint filers include married and RDP couples who file jointly, as well as qualified widows or widowers with a dependent child.

^b Marginal tax rates apply to taxable income in each tax bracket listed. The proposed additional tax rates would take effect beginning in 2012 and end in 2018. Current tax rates listed exclude the mental health tax rate of 1 percent for taxable income in excess of \$1 million.

- Proposition 55 (2016) extends Proposition 30 personal income tax rate increases through 2030

2023-2024 State Budget for CCC

Statewide SCFF, \$9.4B

- **8.22% COLA**, \$678M
- **0.5% Growth**, \$26.4M
- **\$290M of SCFF costs for 2023-24 covered by *one-time* funds**

Other Ongoing Adjustments

- **8.22% COLA** for Adult Ed., EOPS, DSPS, CalWORKS, NextUp, Basic Needs Centers, MESA, Mandates Block Grant, CARE, Mental Health Services, Rapid Rehousing, Puente, Veterans Resource Centers, Umoja, Childcare Tax Bailout, & Apprenticeship
- **\$0.2M** for FCMAT Professional Learning Opportunities
- **-\$50.0M** enrollment-based reduction to Student Success Completion Grant
- **-\$3.1M** enrollment-based reduction to Financial Aid Administration

2023-2024 State Budget for CCC

One-Time Statewide Adjustments

- **\$14M for Workforce Training Grants**
- **\$4.2M for Equal Employment Opportunity Program**
- **\$0.1M for FCMAT Professional Learning Opportunities**
- **-\$494.3M (net) for Deferred Maintenance**
 - **-\$500M** to Prior Year Funding for Deferred Maintenance & Instructional Support
 - **\$5.7M** to Current Year Deferred Maintenance
- **-\$5.4M (net) to support Retention & Enrollment Strategies**
 - **-\$55.4M** to Prior Year Funding for Retention & Enrollment Strategies
 - **\$50M** to Current Year Funding for Retention & Enrollment Strategies

2023-2024 State Budget for CCC

Budget consolidates and creates a flexible block grant that can be spent for any of the purposes of the following grants:

- Deferred Maintenance
- Retention & Enrollment
- COVID-19 Response Grant

Budget expands eligible uses of Strong Workforce Program funding to provide funds to students to cover fees for third-party certification & licensing.

Local Impacts of 2023-2024 Enacted State Budget

- **2022-2023 Deferred Maintenance & Instructional Support reduced 59.48% to \$4,099,575 from \$10,117,155 originally allocated – a \$6,017,580 cut to MSJC**
- **2022-2023 Retention & Enrollment Outreach reduced 41% to \$734,459 from \$1,244,955 originally allocated – a \$510,496 cut to MSJC**
- **Implicit budget cuts to categorical programs not receiving COLA**
- **Recognition of a portion of our 2023-2024 SCFF Deficit Adjusted TCR as one-time revenue due to state budget using one-time resources to fund SCFF**

Local Impacts of 2023-2024 Enacted State Budget

- **Fallout from Education Protection Account (EPA) Revenue Shortfalls**

- 2022-23 state budget revenues of \$1,433M fell short \$930M
- Resulted in “point-in-time revenue deficit” for MSJC at P2

Available Revenue	\$	90,628,227
2022-23 TCR (Max of A, B, or C)		<u>101,631,874</u>
10.8270%	Revenue Deficit	\$ (11,003,647)

- SB 117 Higher Education Trailer Bill, enacted July 2023, provides general fund revenues to offset the decrease in 2022-23 EPA funding.
- “The deficit factor for each district is estimated to be reduced from 10.83% to 0.96% based on 2022-23 P2 data.”
- **2023-24 state budget predicated on EPA revenues of \$1,546M**
- **2023-24 Advance Apportionment deficit of \$2,535,112 (2.2926%)**



MSJC
Mt. San Jacinto College

**Mt. San Jacinto College
2023-2024
Adopted Budget**

2023-2024 MSJC Budget

Overview of MSJC Funds Budgeted

Fund	Description	FY 23-24 Budget
11	General -- Unrestricted	\$157,690,158
11	BOT Special Reserve	\$27,121,626
12	General -- Restricted	\$70,422,276
12	Parking	\$1,077,305
12	Health Center	\$1,435,257
12	Instructional Equipment Block Grant	\$2,551,244
32	Cafeteria	\$3,895,380
33	Child Development	\$1,828,544
41	Capital Outlay Projects	\$52,877,496
43	Bond Projects	\$35,770,904
61	Self-Insurance	\$1,583,810
71	Student Government Association	\$647,510
72	Student Representation Fee	\$170,100
74	Student Financial Aid	\$36,308,104
79	Foundation	\$7,590,556
TL	Total	\$400,970,270

Features of 2023-2024 MSJC Adopted Budget

Revenue

- 8.22% COLA on apportionment & some categorical programs
- 3% deficit applied to general fund revenue
- \$5.76M one-time



Expense

- Step & column raises
- PERS & STRS employer contribution increases
- Health & welfare benefit cost increases
- 3% increase to division discretionary funds
- Funding for MVC & SJC STEM buildings, secondary effects, access controls, HVAC projects, & wayfinding



2023-2024 Adopted Budget Allocation Model

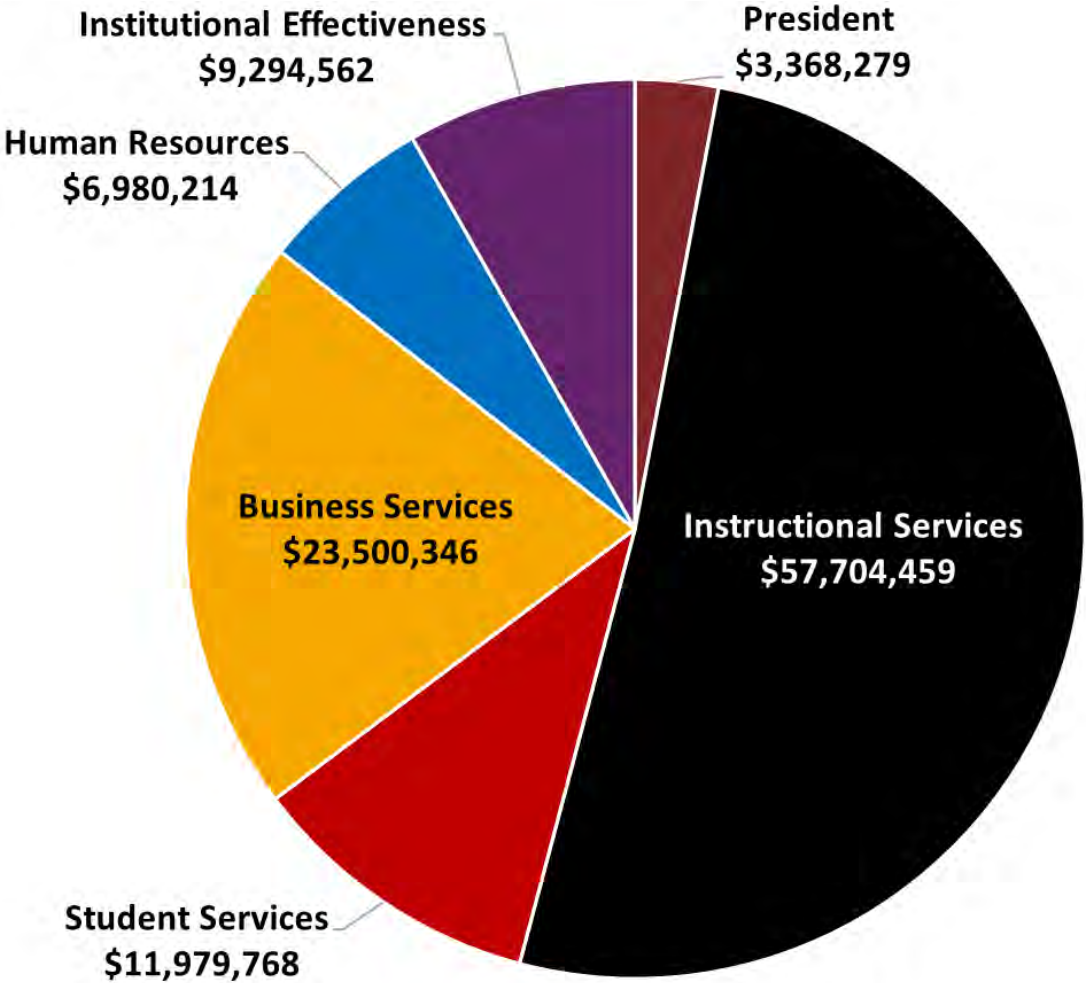
Unrestricted General Fund -- Unaudited



Beginning Balance		\$40,229,766
Projected Ongoing Revenue	+	\$113,156,888
Projected One-Time Revenue	+	\$5,756,487
TL Anticipated Revenue	=	\$159,143,141
Unrestricted Reserves	-	\$33,387,634
One-Time Economic Reserve	-	\$5,756,487
Transfer to Student Financial Services	-	\$85,000
Transfer to Childcare	-	\$56,261
Transfer to Instructional Equipment Block Grant	-	\$357,892
Transfer to Board Designated Reserve	-	\$1,095,091
Transfer to Self Insurance	-	\$577,148
Transfer to Capital Outlay	-	\$5,000,000
TL Available Funds for Allocation	=	\$112,827,628

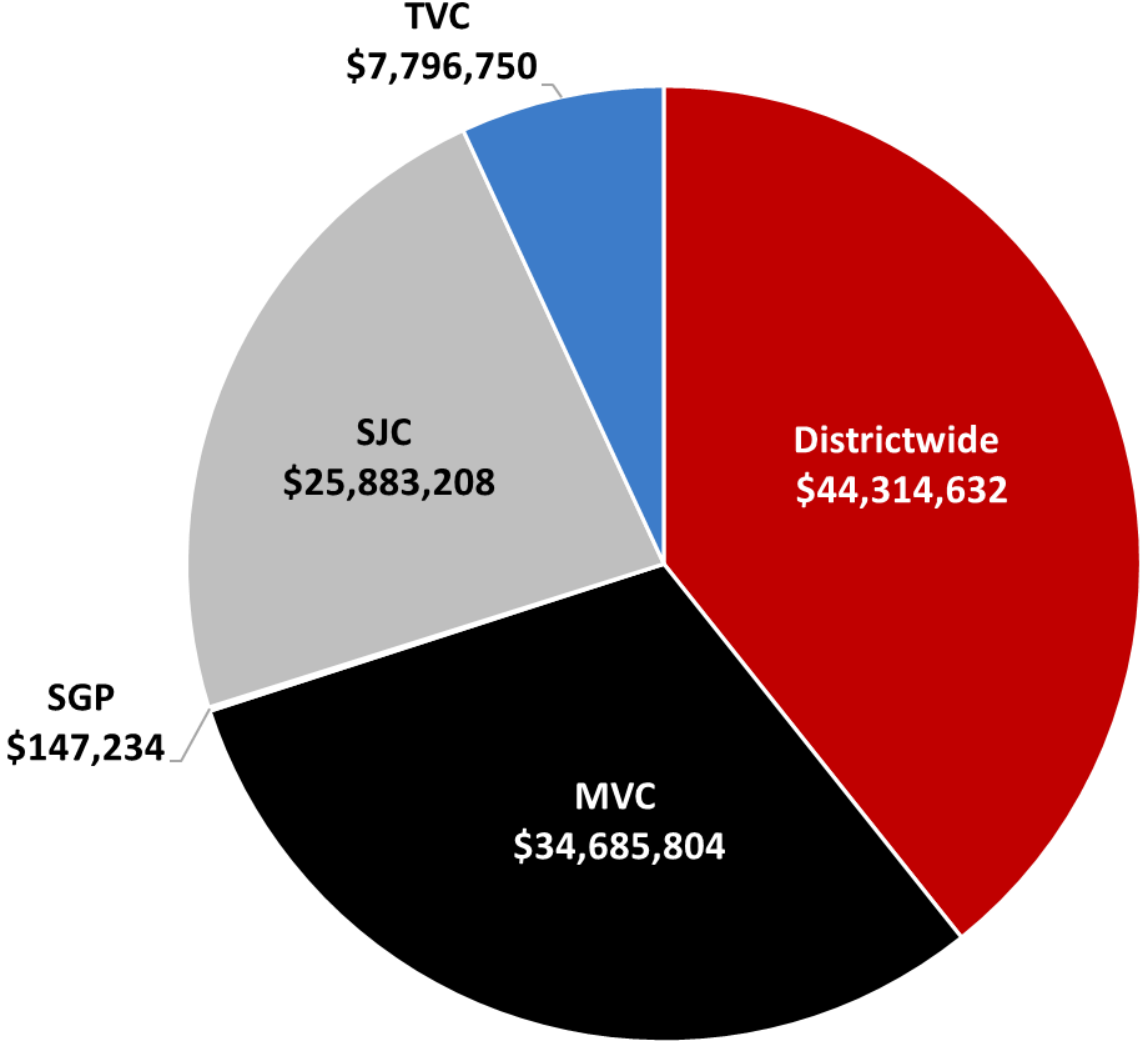
2023-2024 MSJC Adopted Budget Expenditures by Division

Unrestricted General Fund – Expenditure Budget

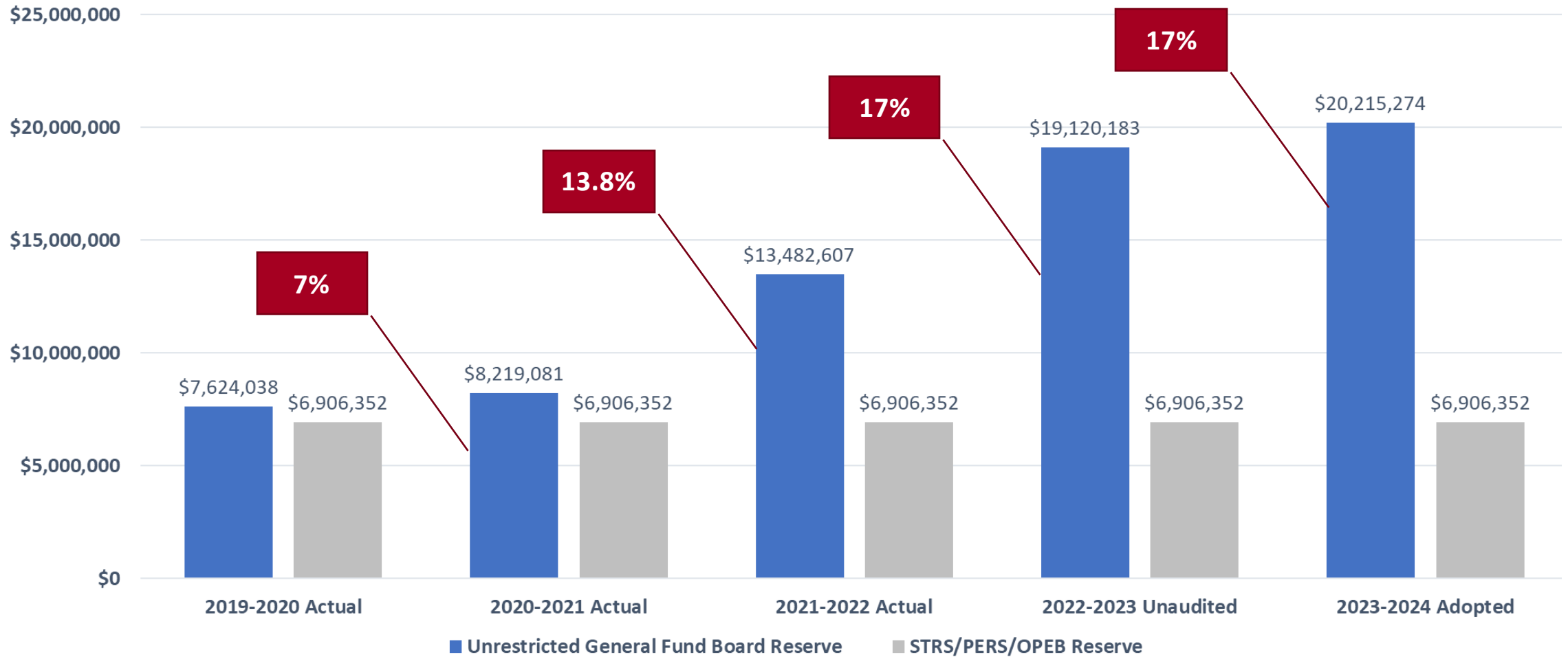


2023-2024 MSJC Adopted Budget Expenditures by Location

Unrestricted General Fund – Expenditure Budget



Board of Trustees Special Reserve Fund



Key Takeaways

- State tax revenue generation through personal income tax, corporate tax, and sales/use tax is becoming increasingly sensitive to economic turbulence
- Shifting revenue generation away from relatively stable property tax sources to State tax sources increased volatility of community college funding
- Recent trend of targeting wealthy taxpayers for increases has the effect of reducing diversification of the State tax pool resulting in even more community college revenue volatility, e.g. Education Protection Account shortfall
- Moderate recession scenario revenue shortfall eclipses the total available State budget reserve funds
- Revenues to pay expenses in a given fiscal year are not entirely known until well after the fiscal year has ended
- State electing to utilize one-time funds for COLA and excluding major categoricals, such as SEA, pose significant challenges to Districts coping with increasing ongoing expense due to inflation and competing in tight labor markets