PASADENA AREA COMMUNITY COLLEGE DISTRICT

FISCAL YEAR 2010-2011 BUDGET PROPOSAL

Board of Trustees

October 6, 2010

Background

With the delay in passing a State budget reaching a record length, the Pasadena Area Community College District is in the position of adopting its final budget ahead of the State's, meaning that numerous assumptions were required on the revenue side. This is especially problematic considering the economic conditions within the state and the resultant pressures on the State government. While the economy is showing signs of recovery, any movement is slight, and the long-term health of the economy is far from certain.

Statutorily, the District is required to submit a Board of Trustees approved budget by September 15 each year. That deadline was extended by the Chancellor's Office by one month. Even that delay was not long enough due to the lack of budgetary progress in Sacramento. With the ongoing political wrangling between the Governor, the Senate, and the Assembly, judgments had to be made to establish revenue estimates for the District. These judgments were made based on the level of support that leaders in the executive and legislative branches of the State government have expressed for California Community Colleges. The removal of the Governor's proposed negative cost-of-living adjustment (COLA) and support of a budgetary growth component of about two percent seem near certain. Therefore, the revenue estimates were predicated on receiving those funds. In the event that these projections are too optimistic, budget adjustments will be required at a later date.

During the 2008-09 fiscal year, expenditures were held at low enough levels to protect the District from expected revenue shortfalls during the 2009-10 fiscal year. The same thing happened again last fiscal year, thereby allowing some measure of protection from the instability of state funding. By employing this strategy, PCC has been spared much of the negative impacts that other districts often experience.

The process of developing the District's budget for the fiscal year 2010-11 was changed significantly from previous years. The Ad Hoc Budget Advisory Committee (AHBAC), comprised of the members of the Executive Committee, the participatory governance Resource Advisory Committee (RAC) and three members of the Board of Trustees, began meetings on February 25, 2010. The first task taken on by the AHBAC was the establishment of the Guiding Principles and Directions to be used to develop the new budget. As the Unrestricted General Fund budget is about 90% wages, salaries and benefits, the next step was to modify and update the Total Compensation Model (TCM). Finally, budget options were developed to represent the worst-case, best-case, and most-likely scenarios.

AD HOC BUDGET ADVISORY COMMITTEE GUIDING PRINCIPLES/DIRECTIONS

OVERARCHING

✓	Impact of State budget on PCC student access will be minimized
✓	Impact of State budget on full-time PCC employees will be minimized

FINANCIAL

✓	Ongoing expenditures are paid with ongoing revenue
✓	Nonrecurring expenditures should be paid with nonrecurring revenue
✓	Budget will include minimum 5% system recommended general reserve
✓	Budget will include minimum 10% reserve to accommodate state's apportionment deferrals

COMPENSATION

✓	District may cover Cost of Living Adjustment (COLA) which is expected to be -.38%
✓	District may cover Step, Column, and Longevity costs
✓	District may cover health and welfare benefit costs as in the past
✓	Total Compensation Model will be used to guide compensation costs
BoT	Benefit Plan upgrades will be discussed

HUMAN RESOURCES

✓	Early retirement will not be considered during this budget development process
BoT	Job sharing options will be developed
✓	Possible voluntary furlough program options will be developed
✓	Involuntary furlough program will be developed
✓	Possible voluntary reduction of hours program options will be developed
✓	Overtime will be minimized
✓	Stipends will be reviewed. General Fund stipends will be minimized
✓	Faculty will be encouraged to reduce overload to preserve jobs of adjunct colleagues
✓	A hiring "frost" will continue

INSTRUCTION

✓	Low-enrolled class sections will be cancelled prior to start of semester
✓	Funded Enrollment Growth will be projected at 2.2.%
✓	Enrollment Management Advisory Group will recommend section counts for 2010-11
State	Funded FTES base will be determined by State when its budget is adopted
✓	Lottery revenue will be budgeted at the rate recommended by School Services of California
✓	District will provide grant matches to maximum possible extent
✓	ARCC funds will be integrated into the General Fund, with $300k available for innovation
✓	Contract education/corporate training options will be developed to enhance revenue

MISCELLANEOUS

✓	District will contribute up to $1.4M to OPEB fund, if it is not fully funded
✓	District will set aside $1M to Enterprise Resource Plan implementation
✓	L.A County election expense for 2011 will be budgeted @ 50% ($225k) in 2010-11
BoT	Civic Center rate schedules will be analyzed for potential BoT revision approval
✓	Categorical programs will receive Unrestricted General Fund (01) backfill, if required

✓ = Adopted by Committee BoT = PACCD Board of Trustees ✓ = Adopted by BoT

The District budgets by using a number of funds, each of which exists to serve a specific purpose. The funds used are:

01 Unrestricted General Fund

03 Restricted General Fund

29 Capital Servicing Fund

33 Child Development Fund

41 Capital Outlay Fund

42 Building Fund (Measure "P")

43 Scheduled Maintenance Fund

59 Identity Services Fund

61 Worker's Compensation Self-Insurance Fund

62 Property & Liability Self-Insurance Fund

63 Dental Coverage Self-Insurance Fund

64 Supplemental Health Self-Insurance Fund

74 Student Financial Aid Fund

These funds will be discussed in order.

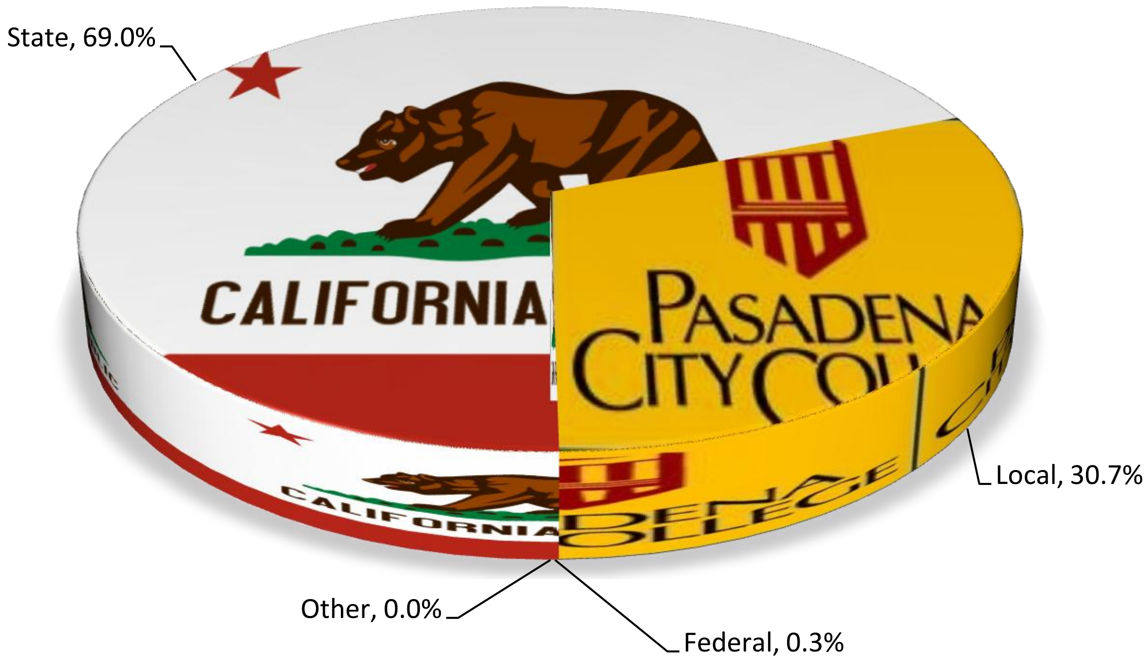
Fund 01—Unrestricted General Fund

The Unrestricted General Fund is by far the largest fund. It is the backbone of the District's operational functions, where the vast majority of employees are paid, along with their employment benefits. While employee-related costs amount to 90% of expenditures, the remaining 10% covers such diverse areas as supplies and utilities.

Revenue

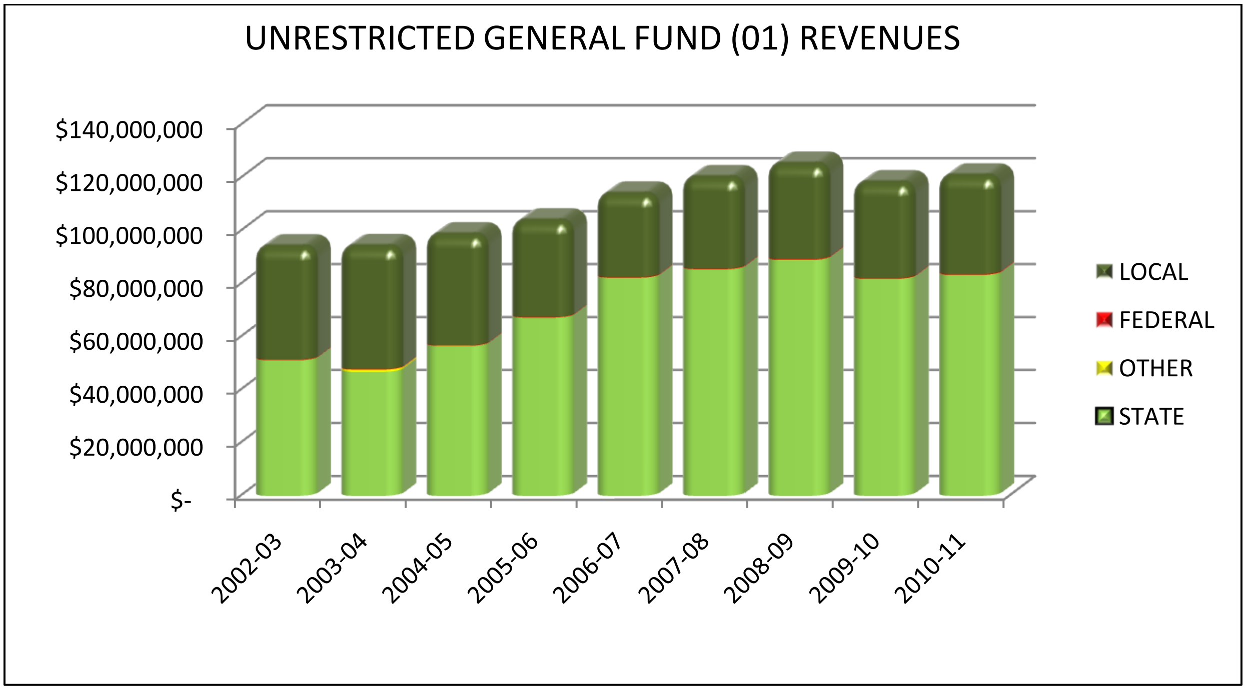
While there are numerous sources of revenue, they fall into four broad categories: State, Local, Federal, and Other. These are in order of size, with Federal and Other playing very minor roles.

Unrestricted General Fund (01) Revenues



Over the past few years, the revenue stream into the Unrestricted General Fund (01) has become more unstable, due to the budgetary uncertainty in Sacramento. In future years, it is recommended that PCC develop other revenue sources that are less mercurial relative to the State's economy and budget. Presently, the lion's share of revenue comes through state apportionment, whereby PCC is paid based on the number of credit and non-credit students enrolled.

For the fiscal year 2010-11, the District is expecting total revenues for the Unrestricted General Fund of $119,694,820.



Expenditures

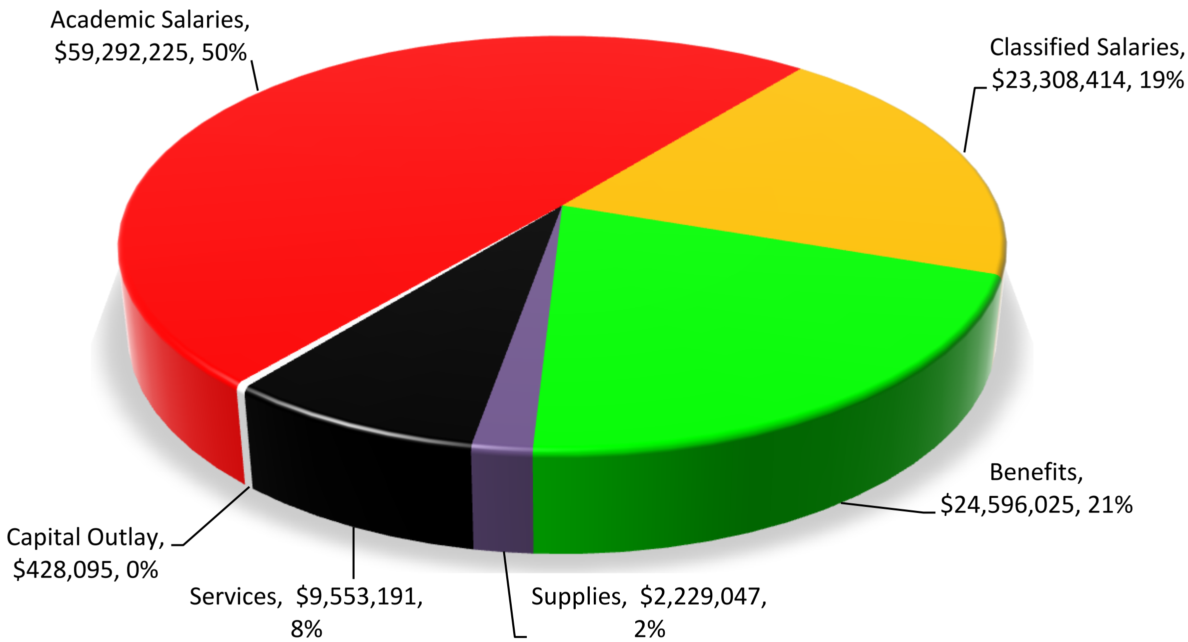
Expenditures break into classes of "Object Codes" in order to track them in an efficient manner.

The Object Codes used fall into the following groups:

1000s	Academic Salaries
2000s	Classified Salaries
3000s	Employee Benefits
4000s	Supplies
5000s	Services
6000s	Capital Outlay
7000s	Other Outgo

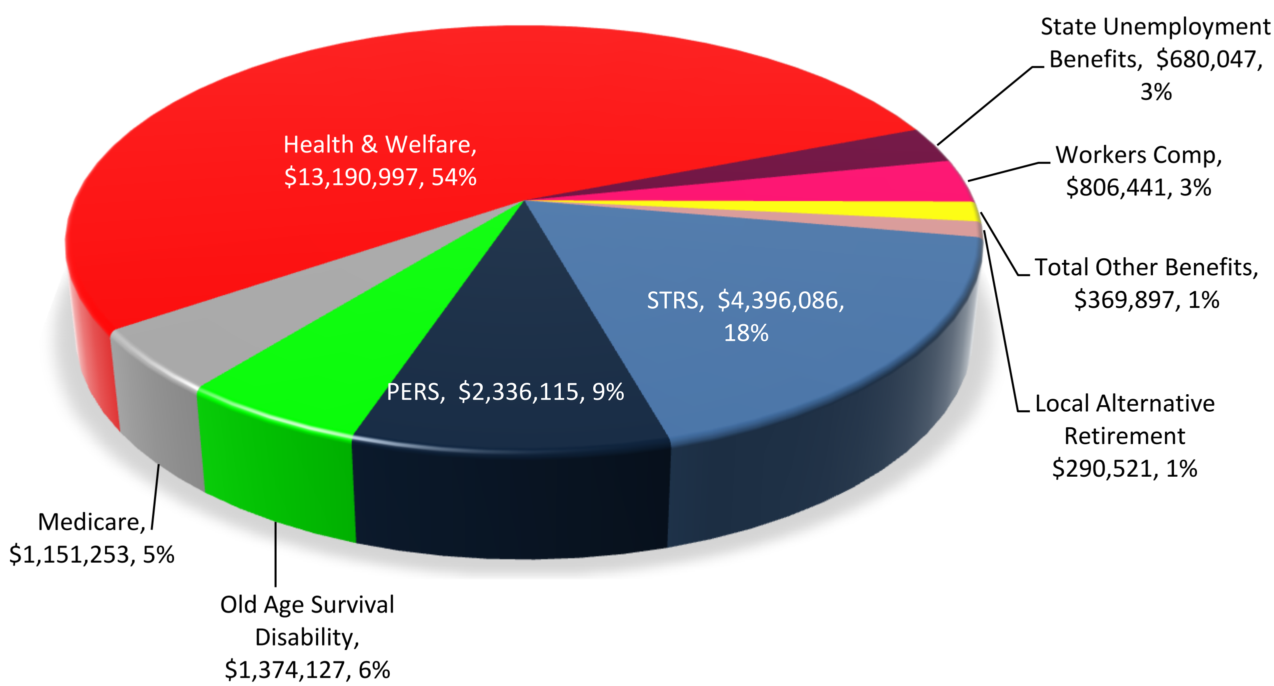
Within these Object Codes, Unrestricted General Fund expenditures are as follows:

Unrestricted General Fund (01) Expenditures

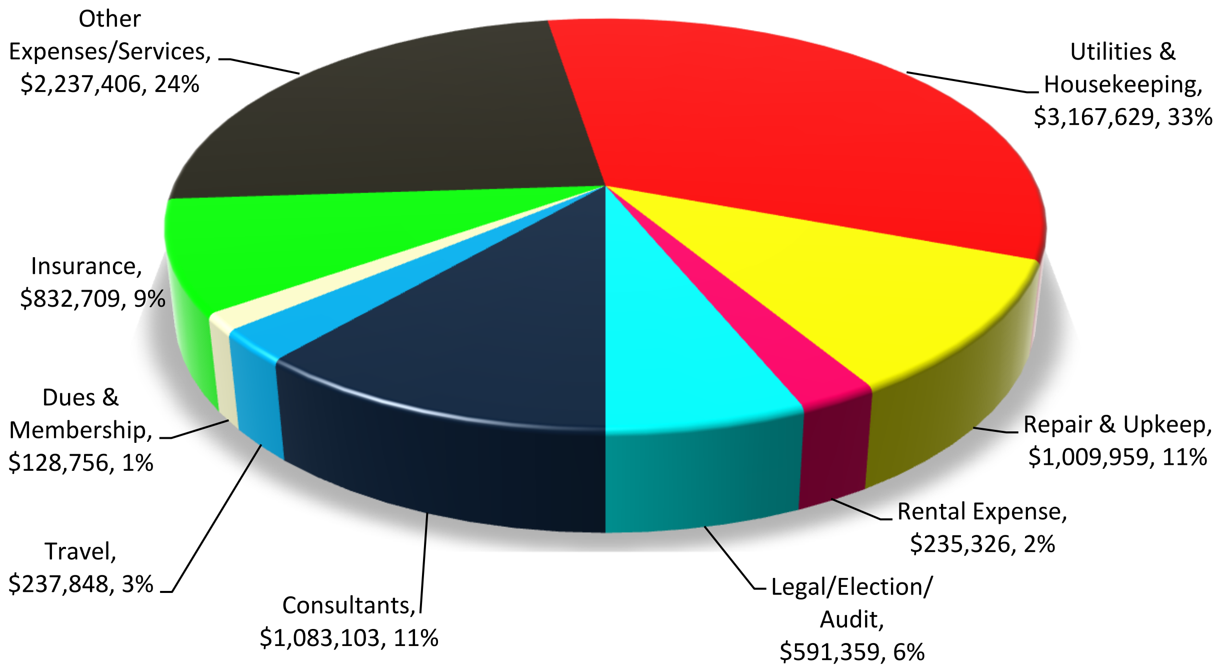


The Benefits sector breaks down as follows:

Unrestricted General Fund (01) Benefits Expenditures



Unrestricted General Fund (01) Other Operational Expenditures



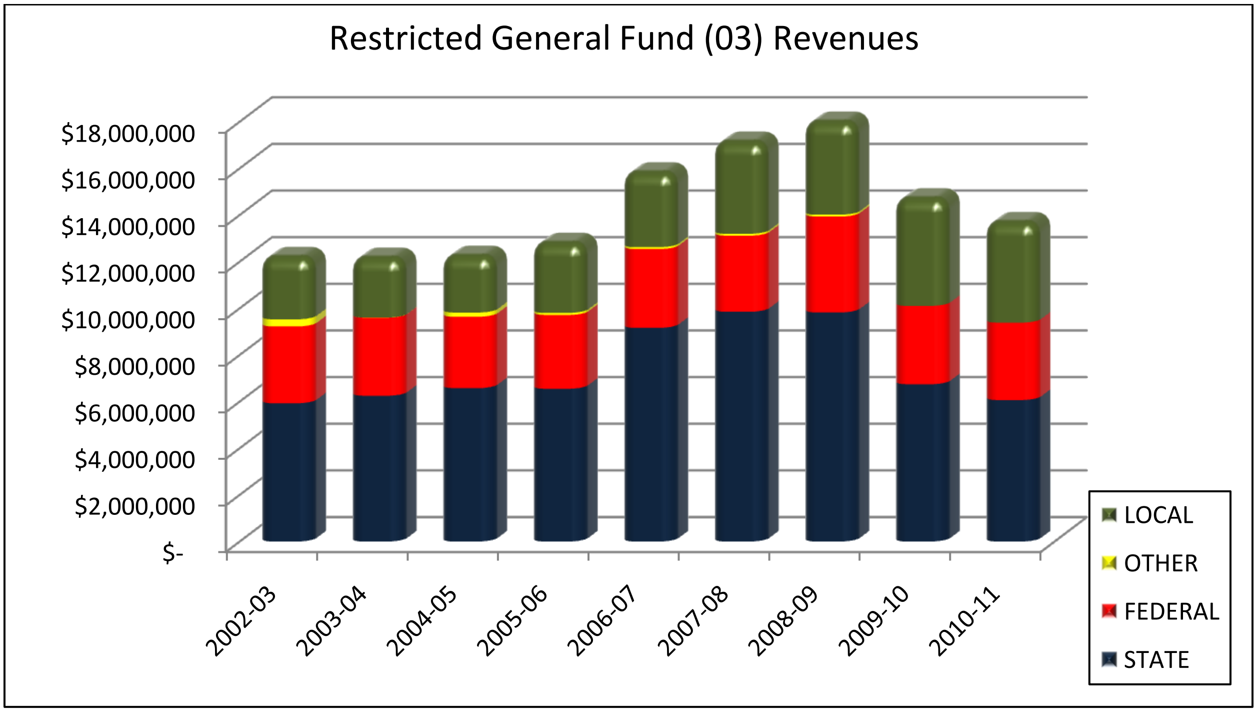
The Unrestricted General Fund summary is as follows:

BEGINNING BALANCE	**$19,766,934**
REVENUES	
Federal Funding	$305,618
State Funding	$83,437,658
Local Funding	$35,941,544
Other Financing Sources	$10,000
TOTAL REVENUE & CARRY-FORWARDS	**$119,694,820**
EXPENDITURES	
Academic Salaries	$59,292,225
Classified & Non Academic Salaries	$23,308,414
Employee Benefits	$24,596,025
Supplies & Materials	$2,229,047
Other Operating Expenses and Services	$9,553,191
Capital Outlay	$428,095
Other Outgo	$1,287,823
TOTAL EXPENDITURES	**$120,694,820**
PROJECTED ENDING BALANCE	**$18,766,934**

Fund 03—Restricted General Fund

Revenue

The Restricted General Fund (03) is experiencing significant shortfalls as well. In FY2003-04, restricted revenues totaled about $10.3M, rising to $14.7M in FY2008-09—or an increase of almost 43%. The total percentages of all revenues for FY2009-10 are as follows:



The Restricted General Fund summary is as follows:

BEGINNING BALANCE	**$3,271,379**

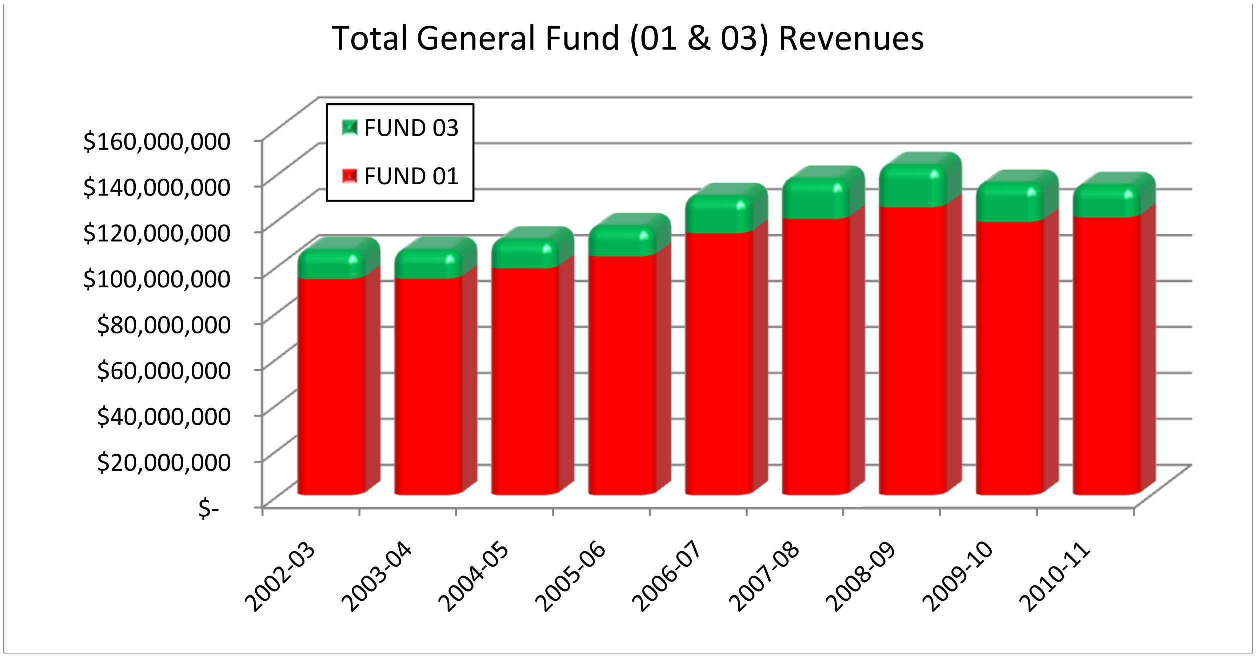
REVENUES

Federal Funding	$3,317,714
State Funding	$6,065,109
Local Funding	$4,299,072
TOTAL REVENUE & CARRY-FORWARDS	**$16,953,274**

APPROPRIATIONS

Academic Salaries	$3,464,562
Classified & Non Academic Salaries	$4,707,993
Employee Benefits	$1,191,507
Supplies & Materials	$838,715
Other Operating Expenses and Services	$2,333,597
Capital Outlay	$3,596,132
Other Outgo	$820,768
TOTAL APPROPRIATIONS	**$16,953,274**

When combined, the Unrestricted and the Restricted General Fund budgets are as follows:



Fund 29—Capital Servicing Fund

The Capital Servicing Fund manages the debt-retirement of two projects. The larger is the Certificate of Participation for the Del Mar Parking Structure (Lot 4). Funded through the collection of parking fees, the budget for this year is $555,000 for principal payments, plus $85,532 in interest.

The smaller is the State Energy Loan, which has a budget this year of $230,000 for principal, and an additional interest payment of $1,895.

The total expenditures in this fund amount to $872,427.

Impact on Students: There are no expected negative year-on-year impacts on students.

Revenues are:

Fund Balance Forward	$673
Other Financing Sources	$871,754
TOTAL REVENUE & CARRY-FORWARDS	**$872,427**

Expenses are:

Principal Payments—State Energy Loan	$230,000
Principal Payments—Parking Structure COP	$555,000
Interest Payments—State Energy Loan	$1,895
Interest Payments—Parking Structure COP	$85,532
TOTAL APPROPRIATIONS	**$872,427**

Fund 33—Child Development Fund

The Child Development Fund is in place to receive funds from parents, the state and federal governments for the purpose of operating the Child Development Center. Enrollment is open to student parents, faculty, staff and the community. The Center also serves as a laboratory facility for students in the Early Childhood Education program.

Impact on Students: There are no expected negative year-on-year impacts on students.

Revenues are:

Fund Balance Forward	$74,608
Federal Funding	$276,491
State Funding	$673,451
Local Funding	$178,200
Other Financing Sources	$33,001
TOTAL REVENUE & CARRY-FORWARDS	**$1,235,751**

Expenses are:

Academic Salaries	$31,000
Classified & Non Academic Salaries	$721,209
Employee Benefits	$203,708
Supplies & Materials	$35,898
Other Operating Expenses and Services	$123,723
Capital Outlay	$45,300
Other Outgo	$74,913
TOTAL APPROPRIATIONS	**$1,235,751**

Fund 41—Capital Outlay Fund

The Capital Outlay Fund deals with one-time expenses on a large project-by-project basis. Included are items such as property acquisition, building construction, technology upgrades and campus renovations, among others. Revenues received into this fund include Tournament of Roses revenues and property management lease income.

Impact on Students: There are no expected negative year-on-year impacts on students. The improvement of the campus and its infrastructure will have significant positive impact.

Revenues are:

Fund Balance Forward	$20,567,212
Local Revenues	$764,688
Other Financing Sources	$1,000,000
TOTAL FUNDS AVAILABLE	**$22,331,900**

Projects include:

Multipurpose Field	$839,197
Campus Signage	$30,000
Campus Remodeling	$1,433,284
Campus Improvement	$488,499
Property Acquisition	$6,401,622
Property Management	$81,000
Contaminated Soil Removal	$82,583
Asbestos Abatement	$1,893,813
Warehouse	$3,162,725
Telecommunications	$236,573
Earthquake Retrofit	$200,000
Classroom Conversions	$1,109,104
Technology Upgrade	$1,500,000
ERP System	$4,873,500
TOTAL APPROPRIATIONS	**$22,331,900**

Fund 42—Building Fund

The Building Fund is where Measure "P" General Obligation Bond money and projects meet.

To date, four main projects have been completed, including the Bonnie Avenue Parking Structure (Lot 5), the new Industrial Technologies Building, the new Bookstore, and the completely renovated Campus Center. The last major project is the Center for the Arts, which will begin construction this fiscal year, and be completed about two years later. The current fund balance is $70,422,126.

Impact on Students: There are many expected positive year-on-year impacts on students. As the projects are completed, the new facilities will greatly enhance the students' academic experiences.

Carry-Forward Funds and Current Revenues are:

BEGINNING BALANCE	$69,568,688
INTEREST	$853,438
TOTAL FUNDS AVAILABLE	**$70,422,126**

Projects include:

CONSTRUCTION MGMT & GEN CONTINGENCY	$25,254,780
INDUSTRIAL TECHNOLOGIES BLDG	$66,474
CENTER FOR THE ARTS	$39,100,403
CAMPUS CENTER	$323,391
EIR MITIGATION	$415,000
CLASSROOM CONVERSIONS	$1,105,641
CLASSROOM UPGRADES	$100,000
ELEVATOR UPGRADES	$2,148,750
RESTROOM UPGRADES	$1,091,016
ACCESS COMPLIANCE—C BUILDING	111,000
TECHNOLOGY INFRASTRUCTURE	$0
ASBESTOS ABATEMENT	$226,666
HVAC/ELECTRIC UPGRADE	$105,000
WALKWAYS/LIGHTING UPGRADE	$148,571
WATERPROOFING	$100,000
LANDSCAPING	$125,434
TOTAL APPROPRIATIONS	**$70,422,126**

Fund 43—Scheduled Maintenance Fund

The Scheduled Maintenance Fund is in place to deal with state-funded maintenance projects formerly known as "Deferred Maintenance". Each dollar provided by the State requires that the District fund one dollar of its own.

For the third year running, the categorically-funded Scheduled Maintenance program has been completely unfunded by the state. Even without new state funds, critical projects must be completed in order to provide an acceptable service level to students, employees and visitors. Funds are in place to continue to work on a number of projects, to begin work on others, and to have sufficient funds in place to be able to match state money, thereby being able to receive state funds when they become available again.

Impact on Students: With the completion of the Scheduled Maintenance projects, the direct and indirect impact on students will be favorable. With the ongoing unfunding of Scheduled Maintenance by the State, the conditions of the facilities will begin to suffer at an increased rate.

Carry-Forward Funds and Current Revenues are:

Fund Balance Forward	$2,475,582
Local Revenues (Interest)	$30,000
TOTAL FUNDS AVAILABLE	**$2,505,582**

Projects include:

Roof repairs @ C, R, U, and L Buildings	$96,942
Replace Motor Control Center	$16,811
Repair Aquatic Center Deck	$17,020
Recaulk Campus-wide	$65,415
Waterproof LL Building (Phase I)	$20,749
Replace Exterior Doors Campus-wide	$8,916
District Funded Projects	$224,591
Upgrade Electrical @ U Building—Phase I	$98,000
Replace Campus Roofs	$189,847
District Match	$1,767,291
TOTAL APPROPRIATIONS	**$2,505,582**

Fund 59—Identity Services (Enterprise Fund)

Identity Services is a fund that captures the revenues and expenditures from the Police and Safety Services activities within the new Community Business Services program. This includes Livescan background checks, passport processing, notary public services, DMV services, among others. It is expected that revenues over costs will be used to partially offset Unrestricted General Fund (01) expenditures.

Impact on Students: There are no expected negative year-on-year impacts on students.

Revenues are:

Fund Balance Forward	$69,604
Local Funding	$591,270
TOTAL REVENUE & CARRY-FORWARDS	**$660,874**

Expenses are:

Classified & Non Academic Salaries	$196,159
Employee Benefits	$30,358
Supplies & Materials	$12,309
Other Operating Expenses and Services	$406,165
Capital Outlay	$15,883
TOTAL APPROPRIATIONS	**$660,684**

Fund 61—Self-Insurance Fund—Worker's Compensation (Restricted)

The District is self-insured for the worker's compensation program. Expenses from work-related injuries and illness for employees, approved volunteers, and students engaged in clinical training are paid through this fund.

Impact on Students: There are no expected negative year-on-year impacts on students.

Revenues are:

Fund Balance Forward	$690,134
Local Funding	$826,156
TOTAL REVENUE & CARRY-FORWARDS	**$1,516,290**

Expenses are:

Classified & Non Academic Salaries	$66,634
Employee Benefits	$32,104
Supplies & Materials	$4,229
Other Operating Expenses and Services	$1,379,210
Capital Outlay	$3,000
Other Outgo	$31,113
TOTAL APPROPRIATIONS	**$1,516,290**

Fund 62—Self-Insurance Fund—Property & Liability (Restricted)

The District is self-insured for property and liability losses. The self-retention level (deductible) for each claim or loss is paid from this fund, and the contribution to the Statewide Association of Community Colleges (SWACC) for the District's share of additional coverage is paid through this fund.

Impact on Students: There are no expected negative year-on-year impacts on students.

Revenues are:

Fund Balance Forward	$675,984
Local Funding	$762,500
TOTAL REVENUE & CARRY-FORWARDS	**$1,438,484**

Expenses are:

Other Operating Expenses and Services	$895,000
Other Outgo/Retention	$543,484
TOTAL APPROPRIATIONS	**$1,438,484**

Fund 63—Self-Insurance Fund—Dental Coverage (Restricted)

The District's dental coverage for eligible employees and their dependents is paid through this fund. A monthly contribution based on actual prior year experience is paid directly to Delta Dental who then pays claims, based on contracted coverage.

Impact on Students: There are no expected negative year-on-year impacts on students.

Revenues are:

Fund Balance Forward	$2,595,904
Local Funding	$1,409,000
TOTAL REVENUE & CARRY-FORWARDS	**$4,004,904**

Expenses are:

Other Operating Expenses and Services	$1,384,000
Other Outgo/Retention	$2,620,904
TOTAL APPROPRIATIONS	**$4,004,904**

Fund 64—Self-Insurance Fund—Supplemental Health (GASB 45)

This fund was established to provide for the needs of "other post-employment benefits" (OPEB), including GASB 45-related liabilities.

Impact on Students: There are no expected negative year-on-year impacts on students.

Revenues are:

Fund Balance Forward	$13,912,697
Local Funding	$2,612,500
TOTAL REVENUE & CARRY-FORWARDS	**$16,525,197**

Expenses are:

Employee Benefits	$450,000
Other Operating Expenses and Services	$650,000
Other Outgo/Retention	$15,425,197
TOTAL APPROPRIATIONS	**$16,525,197**

Fund 74—Student Financial Aid Fund (Restricted)

This fund provides for the receipt and disbursement of federal, state and to a far lesser extent, local funds to students through financial aid programs.

Impact on Students: The amount of money channeled to students has a very positive impact on students.

Revenues are:

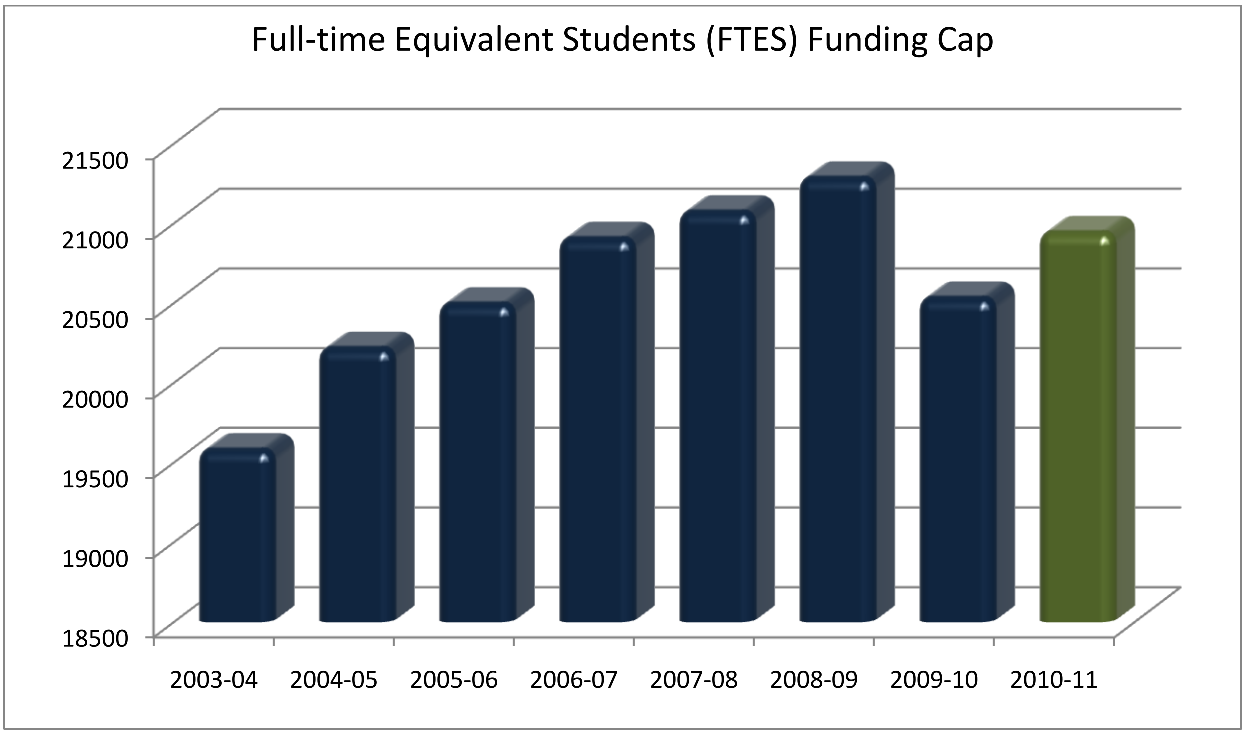
Fund Balance Forward	$691,326
Federal Funding	$26,645,801
State Funding	$1,968,084
Local Funding	$5,000
TOTAL REVENUE & CARRY-FORWARDS	**$29,310,211**

Expenses are:

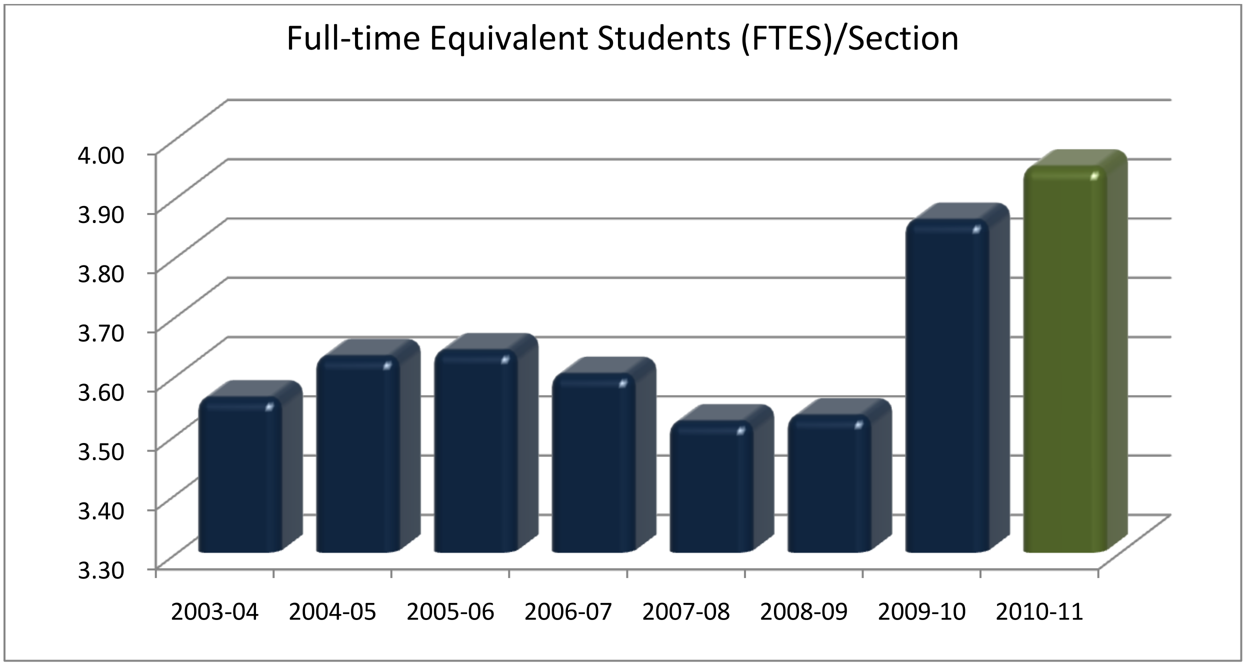
Other Outgo/Retention	$29,310,211
TOTAL APPROPRIATIONS	**$29,310,211**

Full-Time Equivalent Students (FTES)

Due to the overall economic conditions, the lack of funding at the University of California and California State University systems, the need for post-secondary education has created massive demand at the California Community College system. With the community colleges moving to educate students above their funded caps, there exists strong pressure to increase efficiency without increasing costs. PCC's FTES cap rose to over 21,000 two years ago, before falling back to about 20,500 last year. If expectations are correct that two percent growth will be funded when the state finally adopts its FY2010-11 budget, PCC would be almost at the 21,000 FTES cap level.



As mentioned, one of the ways that PCC has dealt with the conflicting pressures is to increase its efficiency. This has occurred by filling available seats in classrooms. The measure used is FTES/Section, and the data show that in the past years, PCC's efficiency has helped in increasing FTES while not increasing sections offered to the same degree. Ultimately, it is the sections offered that affect costs—FTES counts are somewhat secondary. The following chart is zoomed to show the trend. It demonstrates that PCC's efficiency declined for three years, but that trend has been reversed.



The budget for 2010-11 was planned to continue to reduce expenses wherever possible while minimizing negative impacts on students. There exists a strong need to utilize available resources to increase programmatic spending in ways to increase student success, particularly in the areas of transfer to four-year colleges and universities, basic skills, and career and technical education.

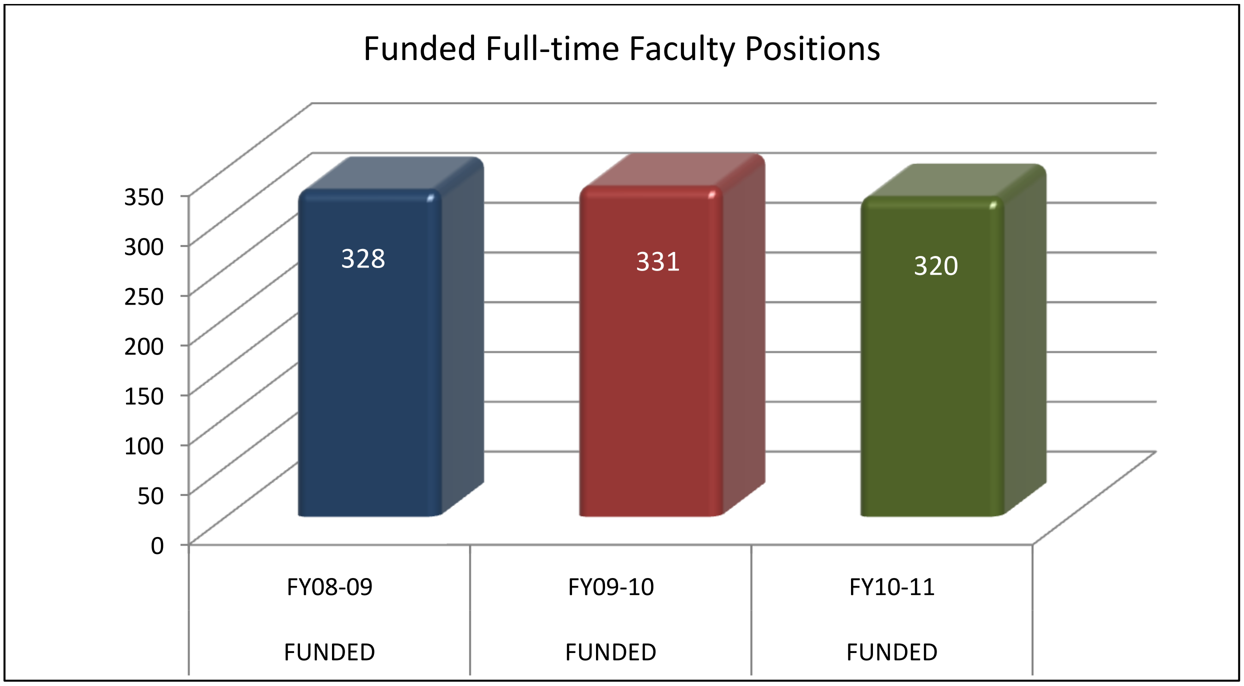
ARRA

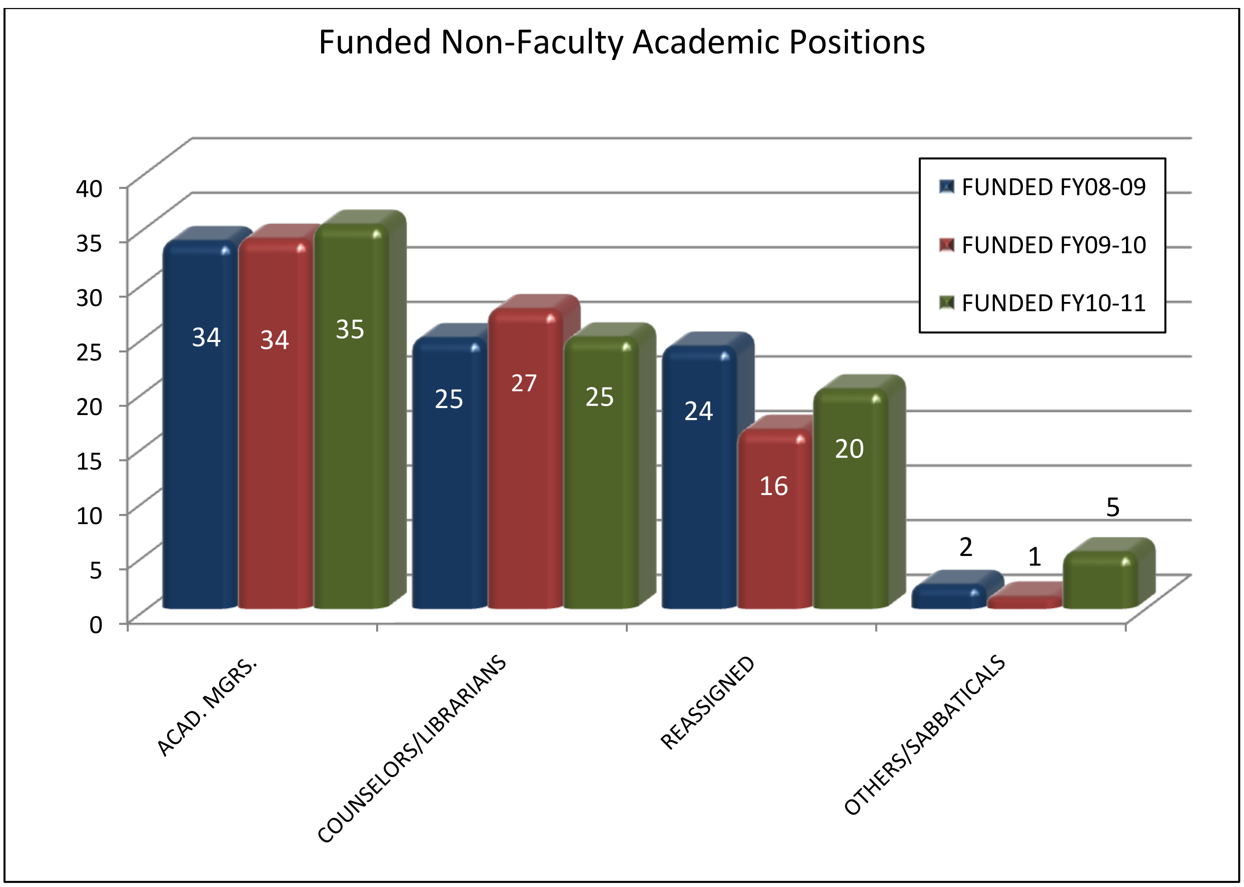
The impact of the American Reinvestment and Recovery Act (ARRA) on the California Community College has been negligible. During the FY2009-10 budget, system-wide expectations for Federal funds began at about $130M, eventually dwindling down to $37M. This year, while almost $1B is heading California's way, only $5M is available to the entire community college system, representing a mere $53k to PCC. This has no impact on the overall budget.

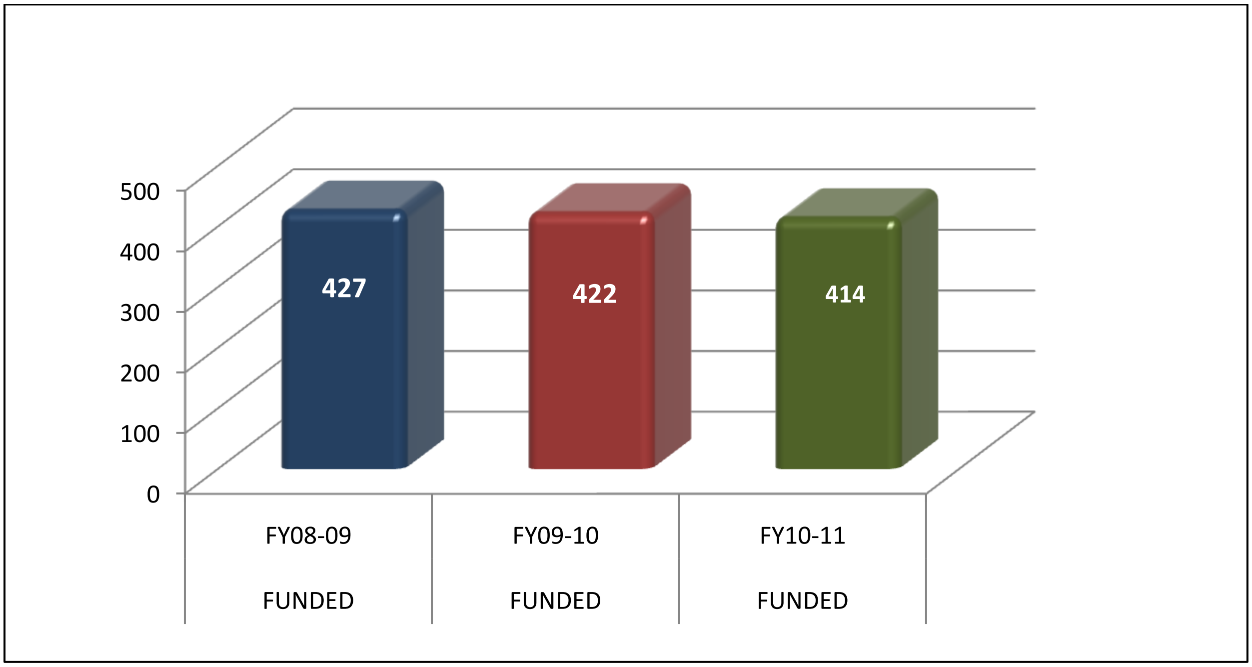
IMPACT OF BUDGET ON WORKFORCE

Again this year, great care has been taken to minimize negative impacts on the workforce—particularly the full-time workforce. This has the effect of further reducing negative impacts on students.

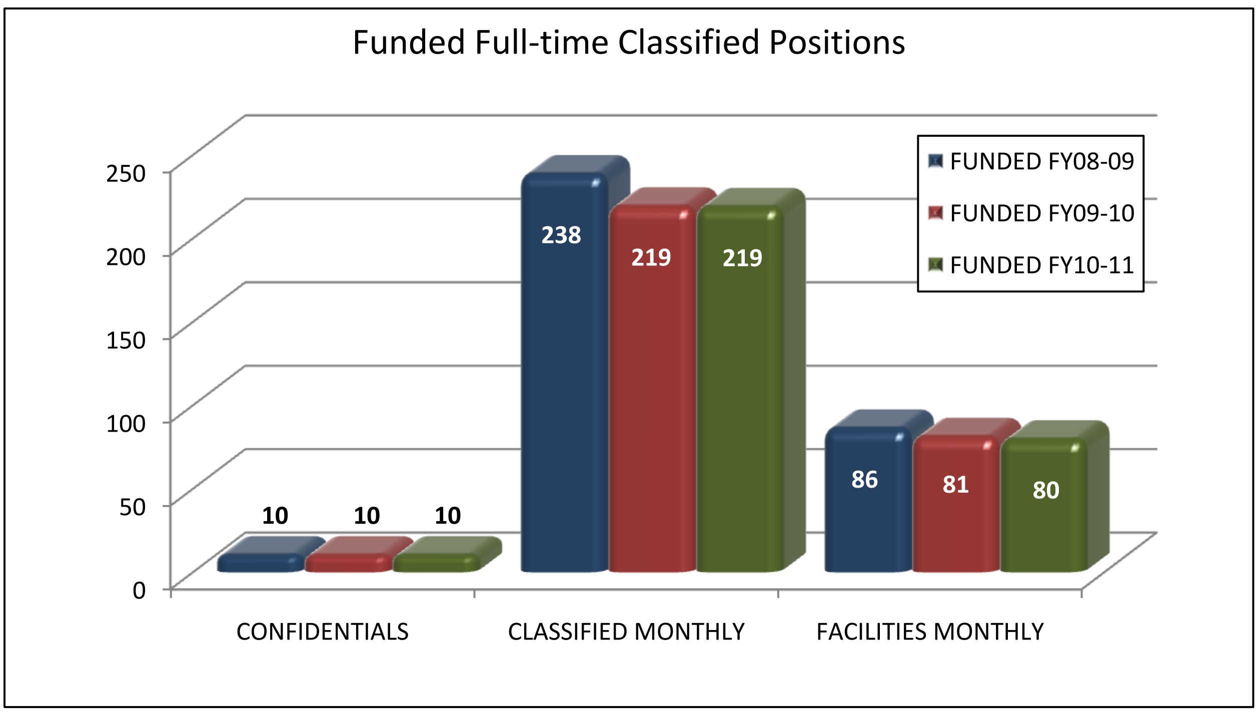
With regard to the instructional positions, several previously-funded permanent full-time positions have been funded through year-long non-permanent replacements due to the late notices provided by retiring faculty.


Funded Full-time Faculty Positions
350
300
250
200
150
100
50
0
328
331
320
FY08-09
FUNDED
FY09-10
FUNDED
FY10-11
FUNDED

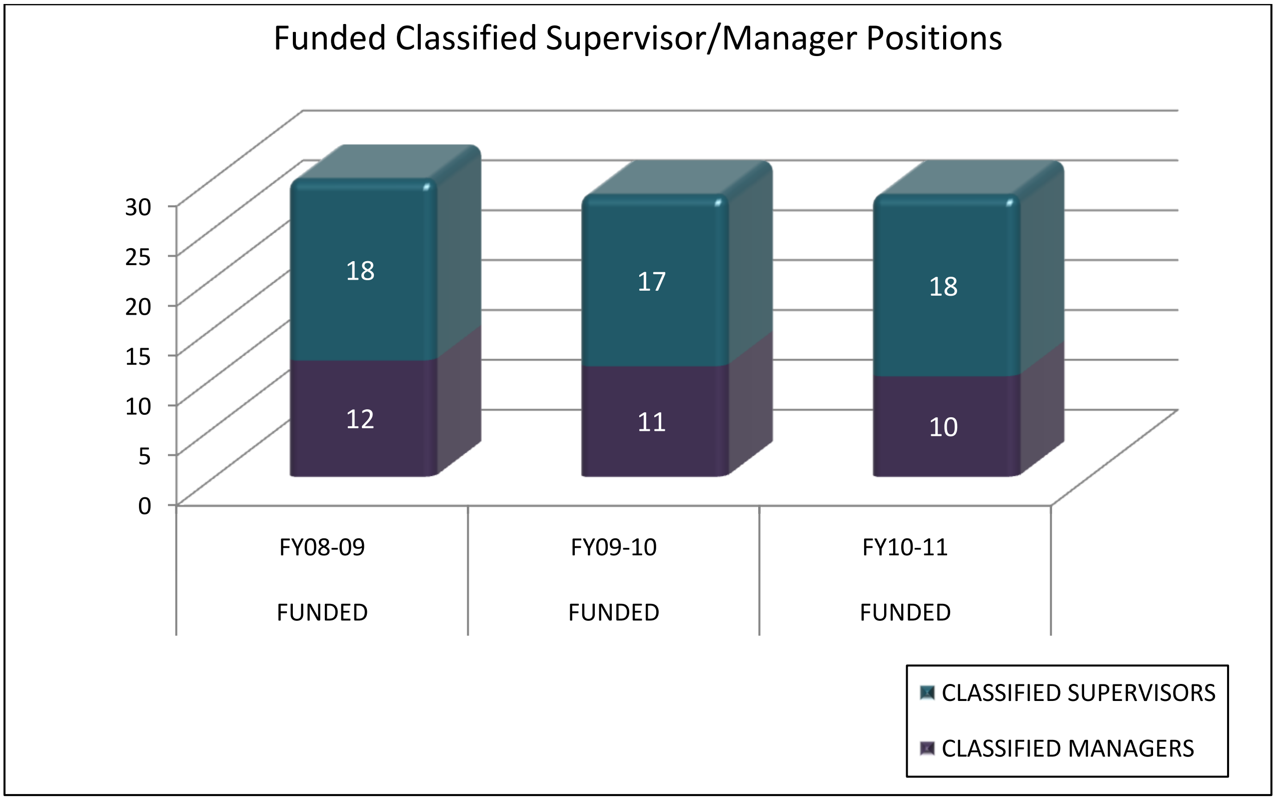

Funded Non-Faculty Academic Positions
40
35
30
25
20
15
10
5
0
FUNDED FY08-09
FUNDED FY09-10
FUNDED FY10-11
34
34
35
25
27
25
24
16
20
2
1
5
ACAD. MGRS.
COUNSELORS/LIBRARIANS
REASSIGNED
OTHERS/SABBATICALS

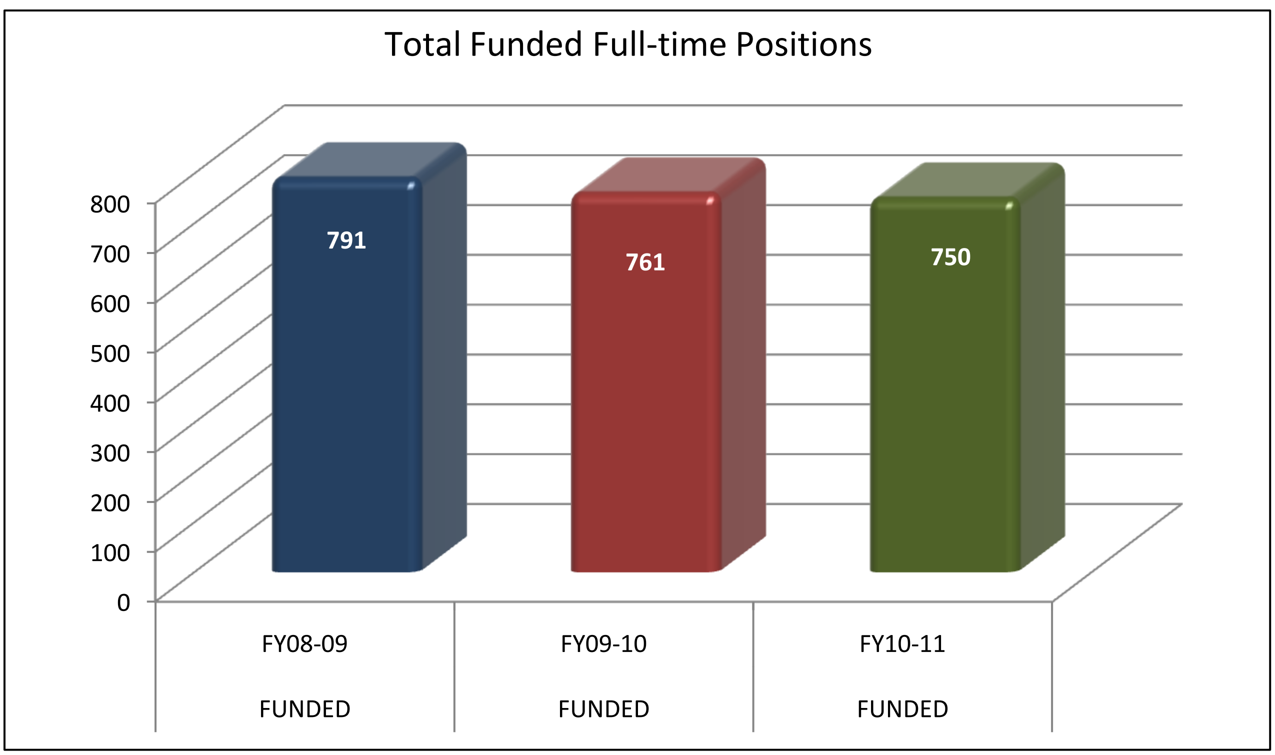


Classified Positions are almost unchanged from last year.



The total number of funded classified supervisors and managers positions is unchanged:





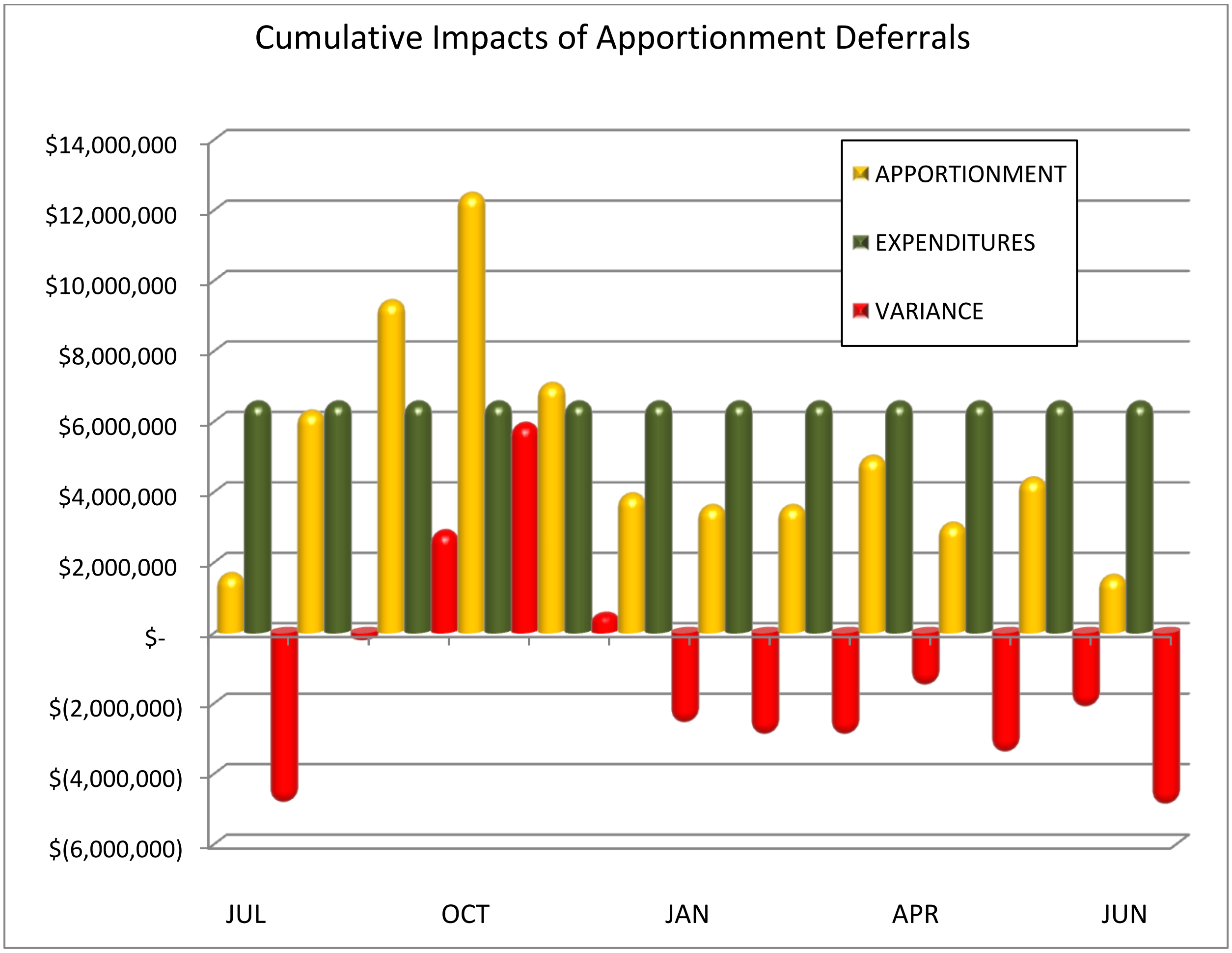
Positive Budget Enhancements

In order to transform PCC into a college best able to serve the needs of the community, the Educational Master Plan is being developed. Its completion is expected at the end of the 2010 calendar year. The primary role of the budgetary process is to ensure that resources are available to meet institutional needs. In order to accomplish that task within uncertain economic times, three prime changes are necessary. First, sustainable revenue streams must be established in order to increase the size of the budget independent of the state. Second, all managers must be given more control and accountability over their own budgets. Third, new programs and processes must be established to increase efficiency and effectiveness of mission-critical functions as will be delineated in the Educational Master Plan.

Effect of Deferrals on Cash Balance

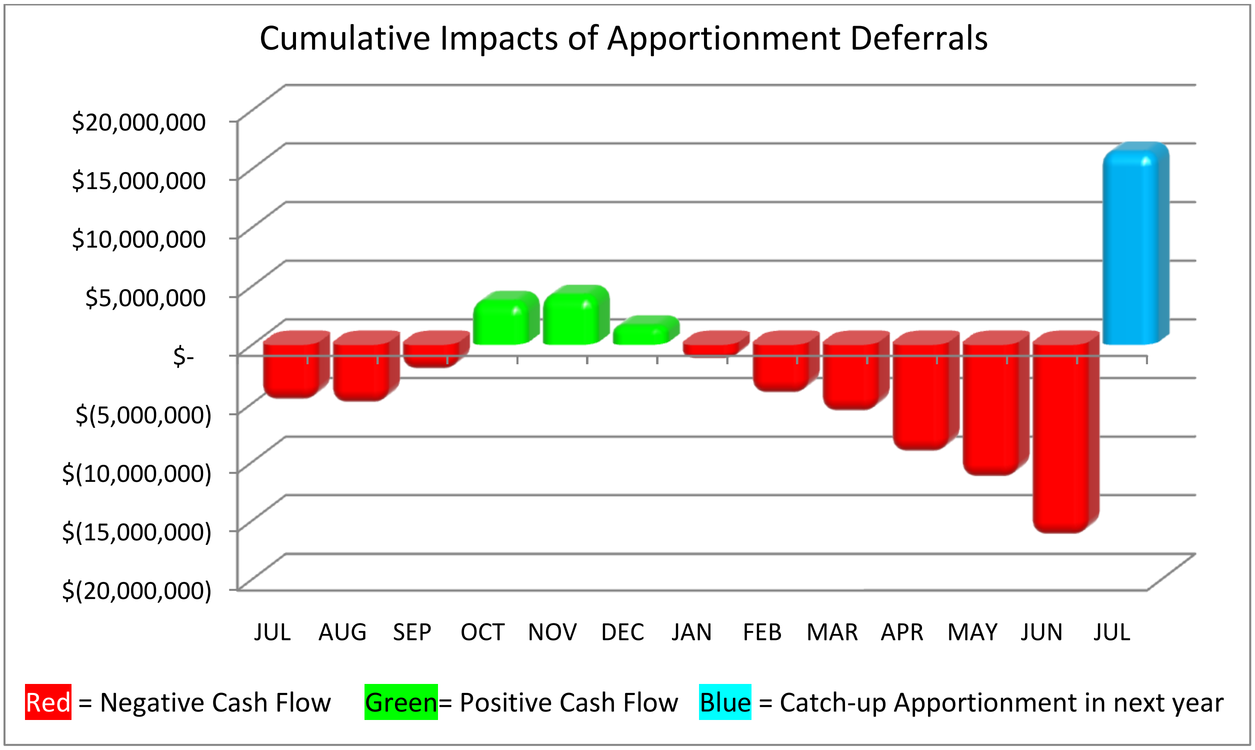
While the state has not adopted its budget and, therefore, the apportionment schedule has not been established, it appears certain that the state has no choice but to continue one of its seemingly permanent gimmick of deferring apportionment payments—where certain funds are withheld from distribution to the districts. This helps the state with its current year balances, at the expense of those downstream in the funding process. This past year the effects of this gimmick amount to more than $16M to PCC. This does not even take into account the opportunity cost that will have been sacrificed by PCC in not being able to invest that money in the county investment pool.

Assuming that expenses remain relatively constant throughout the year, recognizing that 90% of expenditures are wage/salary/benefit related, the apportionments create an increasing burden on PCC. Note that July is seriously short because it is the month the state "catches up" from its deferrals from the previous year, and August is slightly short, October through November have positive cash flows relative to expenses. Then the real problem begins to manifest itself from December through the end of June, when each month is shorted.



These monthly shortages have a cumulative impact, as one month builds on the previous. Only October through December combine to create a positive flow—not because the state pays its proper levels of apportionment payments, but because August, September and October have payments in excess of expenditures. Thereafter, with increasing deferrals, a real shortage is created by June 30. The state then funds the funding shortage it created by making a payment after the year has ended, typically within the first two weeks of the next fiscal year.

The cumulative effect of the deferrals is as follows:



Due to PCC's very careful fiscal management, sufficient fund balances exist to cover ongoing costs. This year has been the most critical of budgeted cash flows. With the extraordinary delay in passing the state budget, local districts have had to bear the costs of operations through their own cash balances and borrowed funds. Many districts have spent their entire cash balances and have then been forced to participate in one of several TRAN (Tax and Revenue Anticipation Note) initiatives. Last year, PCC participated in the Los Angeles County of Education TRAN program for the first time, although it never actually required the borrowed funds. They were borrowed on the basis that with the level of uncertainty at the state level, cash-flow projections showed the PCC would have run out of cash. As it turned out, the budget was adopted in time to avert the need to use TRAN funds. This year, PCC's cash balances are sufficiently strong to avoid the need to spend funds in order to participate in any TRAN program. This has been accomplished by first being able to use beginning balance funds in the Unrestricted General Fund (01), then seeking and gaining Board of Trustees approval to borrow money from two other District funds, namely the Capital Outlay Fund (41) and the Self-Insurance Fund—Supplemental Health (64).

FY2010-11 PREPARATIONS

As the FY2010-11 budget is being developed, preparations are already underway to set up the FY2011-12 version. It is expected that fundamental changes to the overall process will be put in place in order to shift the basis of the budget from status quo—where previous years' numbers are adjusted to create current year budgets—to a process where individual managers are required to meet certain goals in exchange for the funds they receive. Therefore, a results-driven system will be created.