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ABSTRACT

This handbook begins with a history of funding in California's community colleges, explaining that financial support for community colleges has evolved over the years, as have the colleges themselves and the purposes they serve. Following this history of funding is a discussion of 1988's Proposition 98, which guaranteed annual funding and revenue for K-12 and community colleges. In 1990, Proposition 98 was amended with Proposition 111. The amendments that were put into place to stabilize state funds ended up reducing the State General Fund support from 40.33% in 1986-1987 to 33% in 1993-1994. The debate over Proposition 98 and 111 led to a return to program-based funding, as is examined in the next section of the handbook. In this section categories of operation are defined, standards and workload measures are described, target and standard allocations are made, levels of funding and how they are to be appropriated are considered, and recommendations are outlined. This portion of the handbook also includes a "frequently-asked-questions" section about program-based funding. The handbook moves on to discuss full-time faculty obligations and financial accounting, outlining 12 principles for sound fiscal management. Charts of accounts and a glossary of the terms used in the text are included. (TGO)

UNDERSTANDING FUNDING, FINANCE AND BUDGETING
A MANAGERS HANDBOOK
MARCH, 1999

CHANCELLOR'S OFFICE
CALIFORNIA COMMUNITY COLLEGES

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HISTORY OF FUNDING
IN THE
CALIFORNIA COMMUNITY COLLEGES

Financial support for the California Community Colleges has evolved over the years, as have the colleges and the purposes they serve. The following brief summary traces the evolution of financial support and support systems for the colleges.

1907 - Postgraduate courses in high school were authorized.

1917 - High school districts of $3 million or more in assessed valuation were permitted to establish junior colleges. Fifteen dollars per unit of ADA (average daily attendance) was apportioned to junior colleges. ADA was computed as for high schools.

1921 - A district tax for junior colleges was authorized. A state fund for junior colleges was established from federal funds. Funds were apportioned on the basis of $2,000 per junior college plus $100 per ADA on an equal matching basis.

1931 - Provisions were made for inter-district contracts. The State Board of Education was required to approve junior college programs before the college was eligible for state support. Payment of tuition for students not residing in a district maintaining a junior college was made mandatory.

1935 - A method was established for measuring junior college ADA as a minimum of 175 days based upon 15 hours per week with no more than one ADA per student.

1937 - A maximum local tax rate of 35 cents was established.

1945 - Provisions were made for counting summer session attendance for apportionment.

1947 - The concept of state support based upon a foundation program was established. There was $2,000 apportionment for each junior college with $90 per ADA as basic state aid. Each district contributed the amount derived from a 20 cent tax against the assessed valuation. If necessary, state equalization aid was added to provide the $200 per ADA level set in the foundation program.

1949 - The unit of junior college ADA was defined as the total number of hours of student attendance divided by 525.

1953 - Separate accounting of the attendance of adults (students 21 years of age or older enrolled in 10 or fewer class hours) was required. Basic state aid and the foundation program were increased.

1957 - Basic state aid and the foundation program were increased again. The foundation program was set at $410 per ADA. Basic state aid

was set at $125. The district's contribution was computed on the basis of a 33-cent tax rate on the district's assessed valuation.

1959 - The foundation program was increased to $424 per ADA. Basic state aid remained at $125. This legislation authorized that, in 1961, the foundation program would be at $495 per ADA with a district contribution equal to 24 cents multiplied by assessed valuation. It provided further that in 1961, equalization aid could only be computed on the basis of students residing in the district.

1967 - The foundation program was set at $628 per resident, non-adult ADA. Basic state aid remained at $125. This change required a computational local effort equal to 25 cents per $100 of assessed valuation. Assessed valuation was modified by the "Collier" factor (to compensate for varying assessment rates). A special formula was adopted for small districts of 1,000 ADA and under.

1973 - Average revenue per student (revenue limit) was specified with state and local tax revenues varying as needed to provide the specified support. Each district was guaranteed full funding for ADA growth.

1975 - A five percent cap or limit was set on ADA growth. Local districts retained the authority to increase local property taxes to provide additional revenue.

1976 - A form of tax rate control was re-established. State apportionment was provided at an average rate rather than according to a foundation program. Assessed valuation of local real property increased rapidly.

1978 - Proposition 13 was approved by the electorate limiting the local property tax. "Bail out" legislation provided for block grants from the state surplus. Funding was at about seven percent below the prior year and was based on revenue received in 1977-78 rather than on expenditures per ADA. Prior to the passage of Proposition 13, community colleges received about 55 percent of their revenues from local property taxes with the tax rate under local control, within limits. Since 1978, community colleges have been "state-funded" with a portion of that support from the local property tax. The local share of support has been between 20 and 32 percent on a statewide basis. The local share is no longer set or controlled by local district boards of trustees.

1979 - A fixed appropriation of state general fund revenues was set in combination with legislatively prescribed local revenues. A base year concept was used, again, with an attempt to "equalize" funding rates per ADA by changing the rate of inflationary allowance for each college. Marginal funding was introduced with growth or decline in ADA from one year to the next, funded at a fraction (about two-thirds) of the average revenue per ADA.

1981 - Each district was assigned an ADA growth cap which, if exceeded, would not produce additional state revenues. Growth or decline in

noncredit ADA is funded at approximately 50 percent of the full credit rate.

1982 - No additional funding was provided for growth or for inflation. A $30 million reduction was mandated in "recreational/avocational" classes.

1983 - Base year funding concept was continued with revenues added for increased ADA or subtracted for decline in ADA (at incremental rate). Equalization funding was added, if applicable. Inflation funding was added. Projected property tax receipts were subtracted from the state apportionment share. Small district factor was included to adjust small district average revenues. For the first time, non-credit classes were funded at a different rate than credit classes using a rate of $1,100 per ADA.

1984 - General student fees were imposed for the first time. The general student fee was set at $50 per semester for students enrolled in classes totaling 6 or more credit semester units and $5 per unit per semester for students enrolled in classes totaling less than 6 credit semester hours. Student fees were treated as is the local property tax share of state apportionment. Fees were not used to increase general apportionment. Total general revenues were determined for each district and the amount generated by fees and by local property taxes in each district was used to "offset" that amount for each district in the state general apportionment.

1987 - Apportionment formulas for COLA, equalization and growth were extended through the 1988-89 year. General student fees were modified by levying $5 per semester unit for the first 10 units. Student health fees which were abolished in 1984, were reinstated on a local option basis. (Maximum $7.50 per semester, $5 summer.) Matriculation was funded for the first time.

1988 - AB 1725, a comprehensive community college reform proposal, was enacted. A "trigger mechanism" was included which held in abeyance certain reforms until prescribed increased funding levels were provided by the state. One of the provisions of the new law was program-based funding.

Proposition 98 was approved by the electorate providing a minimum funding level for K-12 and community colleges.

1989 - An allocation of $70 million of program improvement funds was provided which triggered Phase I reforms, including a requirement that 33 1/3- to 40 percent of the money be used to transition part-time faculty to full-time status. An additional amount of $45 million was provided on a one-time basis.
A statutory split of Proposition 98 funds between community colleges and K-12 was established.

1990 - An additional allocation of $70 million of program improvement funds was provided, triggering Phase II reforms, including the implementation of program-based funding.

1991 - Enrollment fee increased to $6 per unit for 1991-92 only. Program-based funding was implemented. ADA is no longer used. Full-Time Equivalent Students (FTES), headcount, and square footage now used as workload measures.

1992 - Effective January 1, 1993, enrollment fee increased to $10 per unit with no 10 unit limitation, and a $50 per unit differential fee is instituted for holders of a BA degree. A shortfall of $79.3 million materialized in the property tax causing a deficit in the general apportionment.

The statutory split of Proposition 98 funds between community colleges and K-12 was suspended with community colleges receiving a smaller share than required by law. A loan of $241 million to be repaid from future Proposition 98 funds was provided to community colleges.

Education Revenue Augmentation Fund (ERAF) legislation was enacted to shift property tax revenue from cities, counties and special districts to K-14 education.

1993 - The enrollment fee was increased to $13 per unit with no cap on the number of units and the differential fee for holders of a BA degree was continued at $50 per unit. The statutory split of Proposition 98 funds was again suspended. An additional loan of $178 million was provided to community colleges. The shortfalls in property tax continued and in fact, increased to $120 million. A backfill of $56.5 million from the state general fund helped soften the blow.

1994 - No fee increases were approved. For the fourth consecutive year, no cost of living adjustment (COLA) was provided. Growth funds were provided but property tax shortfalls eliminated that appropriation.

1995 - The enrollment fee remained at $13 per unit for the third consecutive year. It was agreed that the differential fee of $50 per unit for holders of a BA degree would sunset on December 31, 1995. A 3.07 percent cost-of-living adjustment, the first since 1990-91, was approved. Growth funds were available to fund up to 60 percent of each districts' growth cap. Additional growth ($4.0 million) was also provided for districts with new centers. The property tax shortfall projected throughout the year, for the fifth consecutive year in a row, was eliminated with additional state funds after the fiscal year was completed.

1996 - No adjustments were made to the enrollment fee. An improved economy provided the first significant increase in funding for community colleges in this decade. Community colleges received a 3.06 percent cost-of-living adjustment, plus $63 million for regular workload growth as well as growth for new centers ($20 million), new facilities ($24 million) and maintenance and operations catch-up ($10 million). Equalization was also funded at $14 million for the first time since the implementation of program-based funding. A property tax shortfall created a deficit throughout the year, but additional state funds were appropriated after the year was

completed to alleviate all but a small portion of the shortfall ($2.0 million).

1997 - The enrollment fee remained at $13 per unit level. Community colleges continued to benefit from an improved economy. A 2.97 percent cost-of-living adjustment was provided, plus 3 percent growth ($84 million) and $8.6 million for equalization. Welfare reform (CalWORKs) $65.0 million was also included in this year's budget.

1998 - The enrollment fee was reduced to $12 per unit beginning with classes starting in the fall term. A 2.26 percent cost-of-living adjustment was provided, plus 3 percent for growth ($89.6 million) in workload. Equalization was not funded. Partnership of Excellence was funded at $100 million and allocated on a per FTES basis. Partnership for Excellence is a program to strengthen student success and system accountability.

PROPOSITION 98
EDUCATION'S MINIMUM FUNDING GUARANTEE

In 1988, California voters approved Proposition 98, an initiative that amended Article XVI of the State Constitution and provided specific procedures to determine a minimum guarantee for annual K-14 funding. The constitutional provision links the K-14 funding formulas to growth factors that are also used to compute the state appropriations limit (GANN Limit).

Guaranteed Revenue for K-12 and Community Colleges

Proposition 111 (Senate Constitutional Amendment 1), adopted in June 1990, among other things, changed some earlier school funding provisions of Proposition 98 relating to the treatment of revenues in excess of the state spending limit and added a third funding ""test" to calculate the annual funding guarantee. This third calculation is operative in years in which general fund tax revenue growth is weak. The amendment also specified that under Test 2 (see below), the annual cost of living adjustment (COLA) for the minimum guarantee would be the change in California per-capita personal income, which is the same COLA used to make annual adjustments to the state appropriations limit (Article XIII B).

THREE METHODS FOR CALCULATING MINIMUM FUNDING GUARANTEE

There are currently three tests which determine the minimum level of K-14 funding. Test 1 guarantees that K-14 education will receive at least the same funding share of the state general fund budget it received in 1986-87. Initially, that share was just over 40 percent. Because of the major shifts of property tax from local government to community colleges and K-12 which began in 1992-93 and increased in 1993-94, the percentage dropped to 33.0%.

Test 1:
40.33% of State General Fund (33.0%, Effective 7/1/93).

Test 2 provides that K-14 education will receive as a minimum, its prior-year total funding (including state general fund and local revenues) adjusted for enrollment growth (ADA) and COLA (per-capita personal income).

Test 2:

Prior Year General Fund Revenue and Property Tax Plus Increases for:

a. Change in Per Capita Personal Income
b. Change in K-12 Enrollment.

A third formula, established pursuant to Proposition 111 as "Test 3," provides an alternative calculation of the funding base in years in which State per-capita General Fund revenues grow more slowly than per-capita personal income. When this condition exists, K-14 minimum funding is determined based on the prior year funding level, adjusted for changes in enrollment and COLA where the COLA is measured by the annual increase in per-capita general fund revenues, instead of the higher per-capita personal income factor. The total allocation, however, is increased by an amount equal to one-half of one percent of the prior-year funding level as a funding supplement.

Test 3:

Prior year General Fund Revenue and Property Tax Plus Increases for:

a. Change In Per Capita State Revenue + .5%.
b. Change in K-12 Enrollment.

In order to make up for the lower funding level under Test 3, in subsequent years K-14 education receives a maintenance allowance equal to the difference between what should have been provided if the revenue conditions had not been weak and what was actually received under the Test 3 formula. This maintenance allowance is paid in subsequent years when the growth in per-capital state tax revenue outpaces the growth in per-capita personal income.

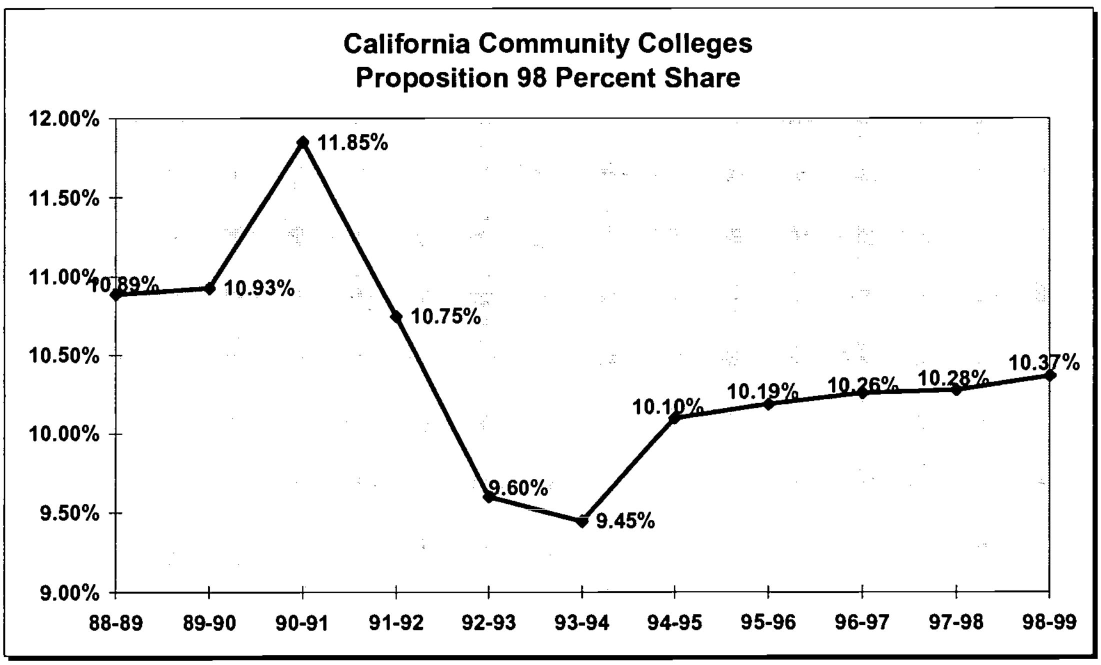
The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990 (SB 88, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

PROPOSITION 98 SPLIT AMONG SEGMENTS

Under implementing legislation (AB 198 and SB 98 of 1989), each segment of public education (K-12 districts, community colleges districts, and direct elementary and secondary level instructional services provide by the State of California has separately calculated amounts under the Proposition 98 tests.

The base year for the separate calculations in 1989-90. Each year, each segment is entitled to the greater of the amounts separately computed for each under Test 1 or 2. Should the calculated Proposition 98 guarantee (K-14 aggregated) be less than the sum of the separate calculations, than the Proposition 98 guarantee amount shall be prorated to the three segments in proportion to the amount calculated for each. This statutory split has been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

The following chart shows the community colleges' share of the Proposition 98 funds since the 1988-89 fiscal year.



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PROGRAM-BASED FUNDING

OVERVIEW

Background

Assembly Bill 1725 (Chapter 973, Statutes of 1988) required the Board of Governors to develop "criteria and standards" for a program-based funding mechanism, which was to be implemented systemwide on July 1, 1991, or after adequate funding for Phase II of AB 1725 had been provided. In March 1990, the Board submitted a report on the basic structure of program-based funding to the Legislature and the Governor.

Seventy million dollars was provided for Phase II reforms in the 1990-91 state budget. At its November 1990 meeting, the Board formally certified that adequate funding has been provided for Phase II, thereby triggering implementation of the final reforms, including program-based funding.

While the Title 5 regulations included in this booklet include the latest amendments, they are based on the Board of Governors March 1990, *Report to the Governor and the Legislature on Program-Based* Funding, which were submitted pursuant to Section 84750 of the *Education Code* (Appendix B), as approved in AB 1725. Section 84750 states in part:

> The board of governors, in accordance with the statewide requirements contained in subdivisions (a) to (j), inclusive, and in consultation with institutional representatives of the California Community Colleges and statewide faculty and staff organizations, so as to ensure their participation in the development and review of policy proposals, shall develop criteria and standards for the purposes of making the annual budget request for the California Community Colleges to the Governor and the Legislature, and for the purpose of allocating the state general apportionment revenues, beginning with the budget request for the 1991-92 fiscal year.
>
> In developing the criteria and standards, the board of governors shall utilize and strongly consider the guidelines and work products of the Task Force on Community College Financing as established pursuant to Chapter 1465 of the Statutes of 1986, and shall complete the development of these criteria and standards, accompanied by the necessary procedures, processes, and formulas for utilizing its criteria and standards, by March 1, 1990, and shall submit on or before that date a report on these items to the Legislature and the Governor.

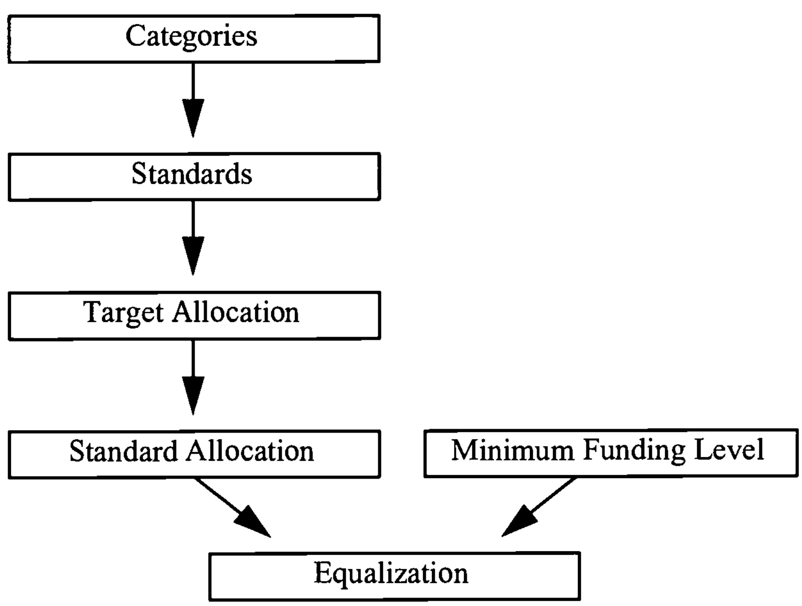
The report relied heavily on the "work product" of the Task Force on Community College Financing, established pursuant to Chapter 1465 of the Statutes of 1986 (AB 3409), and the Ad Hoc Committee for Community College Financing Reform. The committee was convened by the Chancellor's Office to review and build upon the work of the task force, and consisted of several task

force members, Chancellor's Office staff, and representatives from MPR Associates (staff consultants to the task force).

Overview

The Major components of program-based funding are shown in Figure 1. It is important to remember that program-based funding is designed as a revenue allocation method. It is not intended to be an expenditure model. While the allocation of revenues will be related to individual program categories, community college districts will not be required to expend those funds in those categories.

Figure 1.



Categories of Operation

The AB 3409 Task Force was directed to develop a financing mechanism "which would differentiate among the major categories of operating community colleges. . . ." It proposed five major program categories that ultimately were prescribed by AB 1725:

1. Instruction *(Credit)*
2. Instructional Services *(Credit)*
3. Student Services *(Credit)*
4. Maintenance and Operations
5. Institutional Support

Workload Measures

It is necessary to define a "workload measure" for each of the five categories. A "workload measure" is an index used to determine the amount of funding a district will receive. In the prior system, for all practical purposes, the only workload measure used to determine district funding was the unit of average daily attendance (ADA). For program-based funding, Section 84750 specifies the following workload measure for each category:

Category	Workload Measure
Instruction *(Credit)*	Full-time Equivalent Students *(FTES)*
Instructional Services *(Credit)*	FTES
Student Services *(Credit)*	Credit Headcount
Maintenance and Operations	Square Feet *(Owned and Leased)*
Institutional Support	Percentage of Total Computed Standard Allocation

Program-based funding is designed to allocate the general State apportionment, exclusive of capital outlay and categorical expenditures. It is intended that the allocations for special areas such as EOPS and DSPS be kept separate and remain categorical. It was agreed that Matriculation funding should remain categorical until it was well established and then those funds should be folded into the appropriation for program-based funding.

Standards

Probably the most innovative and influential recommendation of the AB 3409 Task Force was that standards be developed, refined, and periodically updated for each of the five categories of operation. The standards determine the level of service and the corresponding level of funding deemed appropriate for each category. Along with the categories established for program-based funding, the standards provide the justification and rational for the appropriate level of funding for community colleges. In addition, the standards furnish a framework within which the needs of students receive primary consideration. A detailed description of the standards for each of the five categories is contained in Title 5 regulations, which are included in this booklet.

Target Allocation

The target allocation is obtained by calculating the exact cost of funding the specific standards in each category on a district-by-district basis. The target allocation reflects the level of funding required to achieve the level of service defined by the standards in each category. However, computing target allocations is not a satisfactory procedure for determining the actual allocations to each district. The computation is far too complex and contradicts the Board of Governors guideline, which calls for simplicity. For that reason, simplified standard rates were derived from the target allocation. When applied to the applicable workload measures and scale factor, the rates produce approximately the same results. This is called the standard allocation.

Standard Allocation

The standard allocation is an attempt to find a simple formula that produces a close approximation of the amount computed in the target allocation. The goal is to have the standard allocation for each category, on a district-by-district basis, relatively close to the target allocation. In a large majority of the cases, the standard allocation is within three percent of the target allocation.

Consideration of Size

In certain program areas, small colleges and districts find that their costs are disproportionately higher than those of their larger counterparts. The AB 3409 Task Force agreed that special consideration should be given to offsetting these extra costs for small colleges and districts. Consequently, an extra-cost factor reflecting economy of scale has been built into the target allocation based on the staff and materials required to open an institution.

Table 1 shows economy of scale factors for instruction and for student services for different size colleges and districts. In addition to the economy of scale factors, some of the standard allocation formulas include an initial block grant which also provides consideration for size.

Table I
Program-Based Funding
Economy of Scale Factors

Instruction			Student Services		
Credit FTES	**District Factor**	**College Factor**	**Credit Headcount**	**District Factor**	**College Factor**
500	1.38899110	1.35134268	728	1.41539341	1.37702951
1,000	1.31403831	1.27842145	1,871	1.33862413	1.30234117
1,500	1.23984163	1.20623582	3,013	1.26270877	1.22848350
2,000	1.16640105	1.13478579	4,156	1.18751436	1.15532715
2,500	1.09371659	1.06407136	5,299	1.11310773	1.08293713
3,000	1.03900351	1.01084147	6,442	1.03969183	1.01151113
3,500	1.03621754	1.00813101	7,584	1.03685058	1.00874689
4,000	1.03343158	1.00542056	8,727	1.03400684	1.00598023
4,500	1.03064561	1.00271011	9,870	1.03116309	1.00321356
5,000	1.02785965	1.00000000	11,012	1.02832184	1.00044932
5,500	1.02507368	1.00000000	12,155	1.02547809	1.00000000
6,000	1.02228772	1.00000000	13,298	1.02263435	1.00000000
6,500	1.01950175	1.00000000	14,441	1.01979061	1.00000000
7,000	1.01671579	1.00000000	15,583	1.01694935	1.00000000
7,500	1.01392982	1.00000000	16,796	1.01410561	1.00000000
8,000	1.01114386	1.00000000	17,869	1.01126187	1.00000000
8,500	1.00835789	1.00000000	19,012	1.00841812	1.00000000
9,000	1.00557193	1.00000000	20,154	1.00557687	1.00000000
9,500	1.00278597	1.00000000	21,297	1.00273313	1.00000000
10,000	1.00000000	1.00000000	22,396	1.00000000	1.00000000

Discretionary Factor(s)

As mentioned above, the regulations for program-based funding include factors that reflect the concept that it is more expensive to provide a comprehensive program in a small institution. In addition, one of the principles enumerated in Section 58704(f) of the regulations recognizes the possible need to add new or refine existing factors for special financial consideration to provide incentives for particular programs, services, or circumstances, based on the Board's discretion.

Noncredit Funding

The discussion on noncredit funding is complicated by the fact that most noncredit programs are concentrated in a very few districts. In addition, the constant comparison with K-12 adult education makes it difficult to accommodate in an isolated manner. A major change in funding noncredit programs was accomplished in Senate Bill 851 (Chapter 565, Statutes of 1983, which directed that all noncredit ADA be funded at the same rate, $1,100). Allowing for inflation, this rate has remained constant, and during 1990-91, reached a level of approximately $1,648. For most districts, this amount was more than adequate to provide for all direct and indirect needs of the noncredit program.

Section 84750(b)(3) of AB 1725 outlines the method to be used for noncredit full-time equivalent students (FTES) in the program-based funding model. It stipulates that the general district allocations for Maintenance and Operations and for Institutional Support are to be computed in a way that includes provisions for the noncredit program. It further states that an amount corresponding to the allocation for these two categories is to be deducted from the rate for noncredit funding. The remainder is deemed to be the noncredit allocation for the combined categories of Instruction, Instructional Services, and Student Services. For 1998-99, the remainder for the three categories is estimated at $1,406.

Minimum Funding Level

The Minimum Funding Level for each district will be determined by a method very similar to that used in the past. A district's prior-year revenue, as adjusted for decline and within the constraints defined in the State Budget Act, will become the base revenue for each year. This amount is then divided by the funding level needed to reach the full standards based on the same workload. The resulting percentage is called the *district percent of standard. A statewide percent of standard* is calculated on the accumulated statewide totals.

This base revenue will be increased for inflation and any applicable growth. The inflation index to be used is identical to that used since 1983. However, each high revenue district will receive inflation on their own average revenue, and each low revenue district will receive inflation on the statewide average revenue.

As prescribed in AB 1725, adjustments for decline will be phased in over three years following the year of decline. Districts with funding above the statewide

average *(statewide percent of standard)* will have their revenues adjusted for decline over a three-year period at the statewide average rate. Districts with funding below the statewide average *(statewide percent of standard)* will have their revenues adjusted for decline over a three-year period at one-half of the district average rate.

For all districts' the adjustment for growth will be at the statewide average rate *(statewide percent of standard).* In all applicable cases, this will also be modified by the scale factor.

Program Improvement or Equalization

The program-based funding regulations state that to the extent funds are provided, an amount equal to at least 10 percent of the full credit COLA be set aside each year for equalization. These funds would be allocated in such a manner that the district at the lowest level of funding (compared with the standard allocation) would receive equalization dollars until it reaches the district at the second-lowest level. These two districts would then receive funds until they reach the district at the third-lowest level. This process continues until all equalization funds have been exhausted. Should there be more appropriated than 10 percent of the credit COLA, the excess will be distributed based on specific directions given by the Board of Governors or directions included in the Budget Act. In the absence of other directions, the excess will be distributed on the basis of 30 percent for equalization and 70 percent across the board per FTES.

PROGRAM-BASED FUNDING
COMPUTING REVENUE AND FTES

Computing a district's apportionment revenue under program-based funding is a relatively complex procedure. This article attempts to give an insight into that procedure in a manner which will be understandable to someone besides a nuclear physicist. It provides some shortcuts for computing revenue. It will not be exact but will allow for approximating revenue in a manner which will be adequate for most decision making activities. In other words, it will be close enough for government work. Under program-based funding, a district's apportionment revenue is computed from the following:

1. Prior Year Apportionment Revenue (base revenue)
2. COLA
3. Program Improvement/Equalization
4. Growth/Decline/Restoration
5. Stability (phases impact of decline)

If a district did not decline in the prior year, then the district's base revenue for the current year will equal the prior year revenue. If a district did decline in the prior year, the funds corresponding to that decline will be deducted from the base revenue in the current year. However, stability funds are provided so the final result is to spread any loss from decline in equal installments over a three year period.

There are four areas where a district's base revenue may be augmented by additional funds. The four areas are: Cost of Living Adjustment (COLA), Program Improvement, Growth and restoration. The COLA is computed from an index which measures the increase due to inflation in governmental goods and services. For 1998-99, the COLA is 2.26 percent. For each district, the COLA is applied to the district's own base revenue or to the statewide average revenue, whichever is greater. By using this procedure, a low revenue district will not "lose ground" in the application of the COLA.

Program Improvement, as the term implies, is an allocation that allows a district to improve the quality of its programs. The first priority for any program improvement funds which are available would be toward equalization. Equalization funds are allocated to the districts which are defined as low revenue districts. To determine low revenue under program-based funding, a standard allocation is computed for each district. This is the allocation that a district would need to fund the standards defined in program-based funding. Each district's actual allocation is then compared with its standard allocation. The district whose actual allocation is the lowest percentage of its standard allocation would be the first district to qualify for equalization funds.

Regulations in Title 5 indicate that an amount equal to 10 percent of the credit COLA will be allocated toward equalization. If program improvement funds in excess of this are available, the remainder would be distributed with 30 percent for equalization and 70 percent across the board to all districts. For 1998-99, no program improvement funds were made available.

Funds for growth are now computed in five categories. For the Maintenance and Operations category, the growth funds are driven by square footage and by full-time equivalent students (FTES) in leased space. Except when a new state-approved building is completed, the growth in Maintenance and Operations is limited to the greater of the rate based on adult population, high school graduates and underserved areas or 1 percent. When a new state-approved building is completed, the total square footage is funded in the growth formula. Any growth funds provided for Maintenance and Operations are increased by 16.55 percent to provide for indirect overhead costs which are included in the Institutional Support category.

Growth in the Instruction category and the Instructional Services category are driven by FTES. A full discussion of the FTES and how an FTES is generated is provided below. Growth funds for the Student Services category are driven by new and continuing headcount.

For a district with one college and more than 10,000 credit FTES and for a college in a multi-college district where the college has more than 5,000 credit FTES, the rates for growth in each category are shown below:

Instruction:	$2,158 per credit FTES.
Instructional Services:	$ 136 per credit FTES.
Student Services:	$ 148 per new credit headcount. $ 119 per continuing credit headcount.

In each case, the amount shown must be increased by 16.55 percent to account for the indirect overhead costs which are included in the Institutional Support category. Single college districts with less than 10,000 credit FTES and colleges in a multi-college district where the college has less than 5,000 credit FTES are assigned a scale factor which increases the rates listed above. As a district or college approaches the 10,000 or 5,000 FTES plateau, the scale factor becomes smaller and at the plateau the scale factor becomes one. Exact scale factors for various sized colleges and districts are shown elsewhere in this booklet.

For non-credit FTES, a growth rate of $1,406 is used in an aggregate fashion for the three categories of Instruction, Instructional Services, and Student Services. When 16.55 percent is added to this rate, the non-credit rate per FTES becomes $1,639. If the FTES is generated in leased space and the district shows growth in that workload measure, then another $249 is allocated which brings the maximum rate for a non-credit FTES to $1,888.

As decisions are made involving the opening of additional class sections, the issue of the corresponding revenue becomes critical. Unless the class is offered in a leased facility, the additional section will not generate new revenue in the Maintenance and Operations category. To determine the exact amount of new revenue individually for the Instruction, Instructional Services, and Student Services category is practically impossible. The amount of new revenue will depend on whether the students enrolled in a new section are new headcount or continuing headcount. Furthermore, if the students are enrolled in other classes, then the revenue corresponding to the headcount has already been generated. Nonetheless, it must be possible to project an amount of revenue

that will be generated when a new class section is added. To do this, we have computed the growth revenue on a statewide basis for the three categories other than Maintenance and Operations but including Institutional Support and have translated that amount into a single number that gives the average revenue per credit FTES. For 1998-999, the average growth revenue per credit FTES that will be generated is $2,985. If a class generates two FTES, then the additional revenue generated will be $5,970. If the cost of operating the class including additional expenses in Instruction, Instructional Services, Student Services, and Institutional Support does not exceed the additional revenue, then from a cost effectiveness standpoint it is worth running the class. Of course, not all classes are going to be cost effective. Our allocation system assumes a tremendous averaging process. Some classes generate more revenue than is needed to operate the class and some generate less. In addition, if a district is overcap and has unfunded FTES, then some classes are generating no revenue.

To compute the revenue generated by a class using the amount of $2,985 per credit FTES, you must be able to compute how many FTES are generated.

Credit FTES can be generated under four different formulas:

1. Positive Attendance
2. Census Week
3. Daily Census
4. Independent Study/Work Experience

Positive Attendance

Classes which do not meet on a regular basis or which operate on an open entry/open exit basis are counted for FTES under the positive attendance format. Also, by law all non-credit courses (except for non-credit distance learning classes) are counted as positive attendance. In addition, as an option, any classes can be counted for FTES under positive attendance *(Other than courses offered under the independent study mode).* Under positive attendance, the actual attendance of each student for each hour is counted. Every 525 hours of actual attendance counts as one FTES. The number, 525, is derived from the fact that 175 days of instruction are required each year and a student attending classes 3 hours per day for 175 days will be in attendance for 525 hours. That is, 3 times 175 equals 525.

If you are operating classes under positive attendance and wish to compute the FTES, you should do the following: Count the total hours of attendance for all students and divide this total by 525. The result will be the number of FTES.

Census Week

Credit classes which meet on a regular basis each week for a full semester or quarter are counted for FTES under the Census Week procedure. Under the Census Week procedure, the students are counted based on enrollment and not based on actual attendance. The count is taken on the Monday which is closest to 20 percent of the way through the semester or quarter. In a semester operation this usually occurs during the 4th week.

Because census weeks are introduced in this procedure, it is necessary to find how many weeks occur in a semester. Since there are 175 days of instruction in a year and 5 days of instruction in each week, by dividing 175 by 5 we find there are 35 weeks in a school year. Since there are 2 semesters, we divide 35 by 2 and find there are 17.5 weeks in each semester.

Therefore, in a semester operation, to compute FTES under the census week procedure, do the following:

(1) Find the number of hours of enrollment during the census week.

(2) Multiply (1) by 17.5. This gives the hours of enrollment for the full semester.

(3) To obtain the number of FTES, divide (2) by 525.

Example: *Suppose a class meets 3 hours per week during the fall semester and has 40 enrollees during the census week. To find the FTES follow the 3 steps above:*

(1) 40 enrollees x 3 hours = 120 hours of enrollment in the census week.

(2) 120 x 17.5 = 2100 hours of enrollment for the semester.

(3) 2100/525 = 4 FTES.

In this example, assuming it is a credit class, the revenue generated would be approximately 4 times $2,985, which is $11,940.

Daily Census

Credit classes which meet on a regular basis for at least five days but do not meet for a full semester or quarter are counted for FTES under the Daily Census procedure. This includes classes held during the summer inter-session. Summer session classes which meet at least 20 percent of the time prior to July 1, and end after June 30, may be reported in either of the two fiscal years that they overlap. For daily census classes the enrollment is counted on the day closest to 20 percent of the way through the course. The number of hours of enrollment is computed for one day only and not for a full week. This number is multiplied by the number of days the class will be in session. The product is then divided by 525 to obtain FTES.

Example: *Consider a summer class which meets 2 hours per day for 24 days. The 5th day will be the census day. Assume 45 students are enrolled the 5th day. The following 3 steps will compute the FTES.*

(1) 45 x 2 = 90 enrollment hours on the census day.

(2) 90 x 24 days = 2160 enrollment hours for total course.

(3) 2160/525 = 4.11 FTES

Independent Study/Work Experience

For computing credit FTES in Independent Study and Work Experience courses, one weekly student contact hour is counted for each unit of credit in which the student enrolls. The computation of FTES is identical to the Census Week or Daily Census, whichever is applicable.

In any case, once the credit FTES is computed then the amount of growth funds per FTES will be approximately $2,985. Remember if the college or district involved is relatively small, then a scale factor will be applied and a larger dollar amount will be generated. Remember also that these funds must accommodate costs in four categories: Instruction, Instructional Services, Student Services, and Institutional Support.

Distance Learning

On March 10, 1994, the Board of Governors approved regulations pertaining to attendance accounting for distance learning.

COMPUTATION OF FTES FOR NONCREDIT DISTANCE LEARNING COURSES

(California Code of Regulations, Title 5, Section 58003.1(f)(2)

1. In noncredit distance learning (NCDL) courses, census attendance accounting procedures are to be used, rather than positive attendance. In computing FTES, the number of weekly student contact hours (WSCH) to be used in the calculation must first be derived.

2. The determination of the WSCH (factor) to be used is achieved by first determining the total number of hours of coursework required for the class. This is done by counting:

    a. the total number of hours of instruction or programming to be received by students in class, plus,

    b. the number of hours expected for any outside-of-class work (as noted in the approved class outline), plus,

    c. any instructor contact as defined by Title 5, 55376(b).

    The sum of these hours (for the length of the course) is divided by 54 (a measure equating to a unit of credit similar to that used in credit distance learning). The resultant figure becomes the WSCH to be used when calculating census FTES for such noncredit distance learning courses.

3. Each noncredit distance learning course section is required to have two census points, rather than one (as in credit instruction), within the length of the course (1/5 and 3/5 point), and active enrollment is

determined prior to each census date, just as has been done in the past for all other census courses.

4. Formulas for computing FTES in Noncredit courses:

(a) **Positive Attendance Noncredit** *(regular noncredit course, immediate supervision, etc.):*

1 hour/day x 22 students x 30 days (6-week course) =

660 student contact hours

$$\frac{660 \text{ SCH}}{\mathbf{525}} = 1.26 \text{ FTES}$$

(b) **Distance Learning Noncredit** *(Independent Study):*

First, determine WSCH (factor) (does not include student count):

5 hours/week - Instruction
10 hours/week - homework
.5 hour/week - with instructor
Total: **15.5** hours

15.5 hours x 6 weeks = 93 hours, total (6 week course)

$$\frac{93}{54} = 1.722 \text{ WSCH (factor)}$$

Second, calculate FTES:

First census (24 students actively enrolled)

1.722 WSCH (factor) x 24 students x 17.5 = 723.24 student contact hours

Second Census (20 students actively enrolled)

1.722 WSCH (factor) x 20 students x 17.5 = 602.70 student contact hours

The average of first and second census divided by 525 equals the FTES:

$$\frac{(723.24 + 602.70)}{2} \div 525 = 1.26 \text{ FTES}$$

In this example the revenue generated would be 1.26 times $1,639, which is $2,065 for the Instruction, Instructional Services, Student Services and Institutional Support categories.

PROGRAM-BASED FUNDING
QUESTIONS AND ANSWERS
REVISED NOVEMBER, 1998

1. **What is Program-Based Funding?**

   For California Community Colleges, program-based funding determines how all general apportionment funds, including base revenue, COLA, growth, stability, and program improvement, will be distributed to the seventy-one districts.

   Program-based funding is also a system that determines the revenue necessary to operate a district at an appropriate level in the following five program categories:

   a. Instruction
   b. Instructional Services
   c. Student Services
   d. Maintenance and Operations
   e. Institutional Support

2. **How is the necessary level to operate a district determined?**

   In each category, standards have been developed and the cost of these standards determines the necessary funding. For example, in the instruction category, one standard is that a 25 to 1 student/faculty ratio should be maintained. This standard translates into a number of faculty which translates into a number of dollars.

3. **How close does the current revenue come to funding the standards in all five categories?**

   On a statewide basis, the current general revenue is approximately 54 percent of the cost of all the standards. On a district by district basis, the range is from 52 percent to 63 percent. Other revenue such as lottery and matriculation may also help fund the standards, however, they are not included in the program-based funding calculations.

4. **Does program-based funding require that a certain portion of the revenue be spent in each category?**

   The program-based funding regulations do not place any restriction on how a district spends the revenue derived from this process.

5. **Is the 50 Percent Law still in effect?**

   Yes. The law that requires a district to spend at least 50 percent of its current expense of education on the salaries and benefits of classroom instructors, was not affected by program-based funding.

6. Is it possible that the program-based funding standards, if fully funded and implemented in a given district, would be inconsistent with the implementation of the 50 Percent Law?

No. Under normal conditions, the cost of the standards, if fully implemented, would always result in more than 50 percent of the funds being spent on the salaries and benefits of classroom instructors.

7. What about the requirement to employ full-time faculty?

The Board of Governors has adopted a minimum standard involving the employment of full-time faculty. Because program-based funding and the statute on full-time faculty were both included in AB 1725, and because they both involve the budget, the implementing regulations were processed through consultation simultaneously.

8. Will districts be required to employ additional full-time faculty in subsequent years?

The minimum standard *(Title 5, Section 51025)* adopted by the Board of Governors requires that beginning in 1992-93, districts must increase the number of full-time faculty corresponding to the prior year increase in funded credit FTES, provided that the Board of Governors certifies that adequate COLA and growth funds were allocated in the prior year.

9. What workload measures are used to determine eligibility for funds under program-based funding?

The workload measures used are credit full-time equivalent students (FTES), non-credit FTES, new headcount, continuing headcount, square feet of facilities owned or leased 100 percent, and FTES in space leased less than 100 percent.

10. How are FTES computed?

FTES are computed under four different formulas; positive attendance, census week, daily census and independent study/work experience. One FTES is equivalent to 525 hours of student instruction/activity.

11. When are headcount counted?

Initially, headcount were counted during the census week for the fall semester. However, pursuant to regulations adopted in 1992, it was determined that an unduplicated headcount during two semesters or three quarters be used. Base data became available during 1992-93, and the new process was implemented in the 1993-94 year.

12. Why were the specific workload measures selected?

These specific workload measures provide the most appropriate and simplest measures that identify costs in each category.

13. Why was no workload measure identified for the institutional support category?

The workload in institutional support is driven by activity in all other categories. Therefore, it was decided to drive the funding in this category by applying a set percentage to the funding for all other categories.

14. What is a lowrevenue district?

A low revenue district is a district whose credit revenue as a percent of standard, is below the statewide aggregate credit revenue as a percent of standard.

15. What is a high revenue district?

A high revenue district is a district which is not a low revenue district.

16. How is the cost-of-living adjustment (COLA) determined?

The COLA is a reflection of the percentage change 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, from the fourth calendar quarter of the prior year to the fourth calendar quarter of the latest available year rounded up to the next hundredth.

17. How is the COLA for each district determined?

For each low revenue district, a COLA is computed based on the statewide average. For each high revenue district, a COLA is computed based on its revenue.

18. Will equalization funds be available under program-based funding?

Yes. AB 1725 defined any additional funds other than COLA and growth as program improvement funds. The implementing regulations state that at a minimum, an amount equal to 10 percent of the credit COLA, should be allocated for program improvement in a manner that achieves equalization.

19. How will the equalization funds be distributed?

The percentage that each district's current revenue is of the cost of funding program-based funding standards for that district is computed. The districts with the lowest percent of standard will receive equalization dollars to bring them to the highest percent of standard achievable with the funds that are available.

20. How will growth funds be determined?

If appropriated in the Budget Act, growth funds will be computed by applying a blended growth rate based on the percentage change in adult population, high school graduates, underserved areas and the FTES capacity of new facilities (minimum 1 percent or 100 FTES and 150 headcount) to the base workload measures for that year. For each

workload measure, a rate is applied to convert to dollars and then an amount is added for institutional support.

21. To qualify for maximum growth funds, must growth occur at the blended growth rate for each base workload measure?

No. The funds for growth are aggregated in two portions. One portion includes growth in square footage and FTES in leased space. The other portion includes growth in credit FTES, non-credit FTES, new headcount, and continuing headcount. In each of the two portions, the dollars for growth and/or decline are aggregated, and the district will receive this aggregated amount, up to the amount computed for the blended growth rate for that portion.

22. Are growth funds in the aggregate always restricted to the adult population change, high school graduates, underserved areas and FTES capacity of new facilities?

No. In the maintenance and operations category, if a new state approved facility is placed in operation, and the square footage for this facility exceeds the square footage allowed under the adult population change, then the district is provided growth funds for all the square feet in the new facility. Furthermore, the regulations allow other factors to be used in determining the growth cap. Some other factors have been proposed and will be implemented to the extent that funds are appropriated.

23. For growth in non-credit FTES, will districts receive the same amount as they would have prior to program-based funding?

The base growth rate per non-credit FTES for instruction, instructional services, and student services for 1998-99 is $1,403. Adding 16.55 percent for institutional support brings the rate to $1,635. For maintenance and operations a rate of $212.83 (plus 16.55 percent) is provided for each additional FTES in leased space. Combining this with $1,635, provides a potential total rate per non-credit FTES of $1,883.

24. How will the loss of funds due to declines in square footage or FTES in leased space occur?

Any declines that occur in a given <u>calendar</u> year in square footage will result in a corresponding loss of revenue in the fiscal year which begins on July 1 of the <u>calendar</u> year of the decline. Declines that occur in FTES in leased space will result in a corresponding loss of funds in the fiscal year in which the decline occurs.

25. How will the loss of funds due to declines in FTES and/or headcount occur?

If the aggregate changes in FTES and headcount results in negative growth revenue, (i.e., the dollar value of the declines outweigh the dollar value of the increases) then, except as noted below, funds will be deducted in the three subsequent years immediately following the decline. In each case, to provide stability, the loss of funds will be spread evenly over the three years. For high revenue districts, the loss

for credit FTES and headcount will be at the full value, but for low revenue districts, the loss will be at 50 percent of the full value. The loss for non-credit FTES is at the same full value for all districts.

26. Is any opportunity provided to restore the funds which are lost due to a decline?

Yes. Funds will be allocated subject to availability for any FTES or headcount which are restored during the three years when funds would otherwise by deducted.

27. What are stability funds?

While we say the fiscal impact of decline is phased over three years, the program-based funding regulations require that initially, the funds be totally deducted. Then an augmentation is provided so that the result is to phase the fiscal impact over three years. The augmentations are called stability funds.

28. How will funds be distributed for supplementally funded programs, such as Basic Skills?

Basic Skills will be funded on an FTES basis, where the amount per FTES will be computed on a district-by-district basis from the revenue computed for each district's growth cap. For maintenance and operations, an amount will be included which is equal to the rate for FTES in leased space. In addition, in both portions an amount for institutional support will be included. Thus, while the computation includes recognition of workload measures for all categories, the final rate will only reflect an amount per FTES.

29. Are any efforts being made to develop standards for non-credit activities?

A group of non-credit representatives has been working on a set of standards which may be submitted into consultation at some later date.

30. Does program-based funding give any recognition to the extra cost involved in operating a small institution?

Yes. Recognition is given to size and is reflected in the allocations for COLA, growth, and equalization.

31. How is recognition given to size in each of the program categories?

In the Instruction category, a scale factor is applied in computing the cost of the standards and in computing the growth allotment. This factor phases out for single college districts at 10,000 FTES, and for colleges in a multi-college district at 5,000 FTES. For instructional services, recognition for size is given in computing the cost of the standards by including a block grant which reflects the cost of initiating a program. For student services, both a block grant and a scale factor are used. The scale factor phases out for single college districts at 22,395 headcount and for colleges in a multi-college district at 11,197 headcount. No

recognition for size is included for maintenance and operations. For institutional support, recognition for size is included by virtue of the fact that this category is computed as a percentage of all other categories.

32. Why is institutional support 14.2 percent of the total funds for all categories, but 16.55 percent of the remaining categories?

The 14.2 percent is used because the most recent data shows that on a statewide basis, institutional support represents 14.2 percent of the total expenditures. That leaves 85.8 percent (100 minus 14.2) for the remaining four categories. If you divide 14.2 by 85.8, you find that 14.2 represents 16.55 percent of 85.8. That is, it represents 16.55 percent of the remaining categories.

Program-Based Funding Regulations
are contained in the
California Code of Regulations,
Title 5, Sections 58700 through 58779,
and can be found on the Internet at the following URL:

http://www.calregs.com/

FULL-TIME FACULTY OBLIGATION

Included in AB 1725 were requirements involving the employment of full-time faculty. The intent was to improve the ratio of full-time to part-time faculty and to have that ratio reach 75 percent in all districts.

The law was written in a manner that required districts that had not achieved the 75 percent ratio to utilize a portion of their program improvement funds received in 1989-90 and 1990-91 to employ additional full-time faculty.

To quantify the process, Fall 1988 was chosen as the base and the districts were given until Fall 1991, to fulfill their obligation. The process is summarized as follows:

Base full-time faculty number (Fall, 1988)

+ 1989-90 Program Improvement Obligation
+ 1990-91 Program Improvement Obligation
= Fall 1991 Full-Time Faculty Obligation

This obligation resulted in the employment of over 1,100 additional full-time faculty.

To maintain this improvement, regulations were approved which required additional full-time faculty to be employed if growth funding was provided in the budget. However, the regulations indicated that this provision could be waived if inadequate COLA was provided. Since no COLA was allocated for 1991-92, 1992-93, 1993-94 or 1994-95, the provision was waived for each of those years. For the years 1995-96 through 1998-99, adequate COLA and growth funding has been provided in the budget to implement the full-time faculty regulations (CCR 51025).

In fiscal year 1997-98, the full-time faculty regulations were amended to allow the inclusion of non-instructional faculty in the computation of the full-time and part-time faculty ratio. The districts actual number of full-time, non-instructional faculty for Fall 1997 was added to the base obligation.

FINANCIAL ACCOUNTING

In terms of the comprehensive planning process, it is important to keep budget development and management and financial accounting in the proper perspective. As a general philosophical position, accounting requirements should not direct the operation of instructional programs.

Accounting is generally defined as the art of classifying, recording, and reporting the results. It deals with the total structure of records and procedures that discover, record, classify, and report information on the financial operations of community college(s)/district(s) or any of its funds, balanced account groups or organizational components.

In most cases, districts have computer accounting software programs that serve as powerful management tools enabling users to exert on-line capabilities to provide immediate record, summation and overall monitoring of financial operations. Management of budget and accounts can be decentralized to almost any level.

In accordance with Education Code Section 70901, the Board of Governors is responsible for establishing, maintaining, revising, and updating the uniform budgeting and accounting structures and procedures for the California Community Colleges. Education Code Section 84030 states that the accounting system used to record the financial affairs of any community college district shall be in accordance with the definitions, instructions, and procedures published in the California Community Colleges Budget and Accounting Manual as approved by the Board of Governors. The accounting manual is not intended to affect the content of any educational program or objective, except as provided for in the Education Code.

Budget and Accounting Manual Overview

The California Code of Regulations, Title 5, Section 59011 incorporates by reference the following chapters of the Budget and Accounting Manual (1993 Edition):

Chapter 2 Fund Structure
Chapter 3 Accounting for Revenues and Other Financing Sources
Chapter 4 Accounting for Expenditures and Other Outgo
Chapter 5 Accounting for Balance Sheet (Assets, Liabilities, Fund Equity)

These chapters have the effect of regulation and must be followed to insure uniform budgeting, accounting, and reporting. The budgeting and reporting requirements are included in the regulations beginning with Section 58300. An annual financial and budget report (Form CCFS-311) is submitted to the Chancellor's Office by September 30 of each year. This report includes actual/budgeted revenues and expenditures by fund. This report also includes supplemental data on Gann Appropriation Limit, analysis of net ending balance, 50 Percent Law, detail of General Fund revenues, expenditures by

activity, and lottery revenues and expenditures. Beginning with the 1993-94 fiscal year, the CCFS-311 report has been automated using an Excel 4.0 spreadsheet system.

The Budget and Accounting Manual provides a fund and account code structure (see the following Chart of Accounts) for uniform accounting and reporting. A two-digit code is used for funding designation and a separate four-digit code is used for each of the revenue, expenditure by activity, expenditure by object, and balance sheet accounts. These codes are used in conjunction with district designated codes for location, responsibility, program, etc.

Revenues and expenditures are to be recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are earned, available, and measurable unless otherwise specified. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The fiscal year for governmental funds is July 1 through June 30.

Principals for Sound Fiscal Management

The following are principles for sound fiscal management adopted by the Board of Governors (CCR Section 58311):

1. Each district shall be responsible for the ongoing fiscal stability of the district through the responsible stewardship of available resources.

2. Each district will adequately safeguard and manage district assets to ensure the ongoing effective operations of the district. Management will maintain adequate cash reserves, implement and maintain effective internal controls, determine sources of revenues prior to making short-term and long-term commitments, and establish a plan for the repair and replacement of equipment and facilities.

3. District personnel practices will be consistent with legal requirements, make the most effective use of available human resources, and ensure that staffing costs do not exceed estimates of available financial resources.

4. Each district will adopt policies to ensure that all auxiliary activities that have a fiscal impact on the district comport with the educational objectives of the institution and comply with sound accounting and budgeting principles, public disclosures, and annual independent audit requirements.

5. Each district's organizational structure will incorporate a clear delineation of fiscal responsibilities and establish staff accountability.

6. Appropriate district administrators will keep the governing board current on the fiscal condition of the district as an integral part of the policy- and decision-making processes.

7. Each district will effectively develop and communicate fiscal policies, objectives, procedures, and constraints to the governing board, staff, and students.

8. Each district will have an adequate management information system that provides timely, accurate, and reliable fiscal information to appropriate staff for planning, decision-making, and budgetary control.

9. Each district will adhere to appropriate fiscal policies and procedures and have adequate controls to ensure that established fiscal objectives are met.

10. District management will have a process to evaluate significant changes in the fiscal environment and make necessary, timely, financial and educational adjustments.

11. District financial planning will include both short-term and long-term goals and objectives, and broad-based input, and will be coordinated with district educational planning.

12. Each district's capital outlay budget will be consistent with its five-year plan and reflect regional planning and needs assessments. To the extent that the foregoing principles repeat or paraphrase mandates already in existence, these underlying mandates shall continue to be legally binding. Otherwise, these principles, by themselves, shall be applied to the extent that existing state and district funding is available.

Chart of Accounts

FUND TITLES

GOVERNMENTAL FUNDS GROUP

10	**General Fund**	
	11	Unrestricted Subfund
	12	Restricted Subfund
20	**Debt Service Funds**	
	21	Bond Interest and Redemption Fund
	22	Revenue Bond Interest and Redemption Fund
	29	Other Debt Service Fund
30	**Special Revenue Funds**	
	31	Bookstore Fund
	32	Cafeteria Fund
	33	Child Development Fund
	34	Farm Operations Fund
	35	Revenue Bond Project Fund
	39	Other Special Revenue Fund
40	**Capital Projects Funds**	
	41	Capital Outlay Projects Fund
	42	Revenue Bond Construction Fund

PROPRIETARY FUNDS GROUP

50	**Enterprise Funds**	
	51	Bookstore Fund
	52	Cafeteria Fund
	53	Farm Operations Fund
	59	Other Enterprise Fund
60	**Internal Service Funds**	
	61	Self-Insurance Fund
	69	Other Internal Services Fund

• = Account Code determined by district.
Underline = Account Code Illustrative pending statewide automated reporting

Chart of Accounts

FUND TITLES *(Continued)*

FIDUCIARY FUNDS GROUP

70 Trust Funds

71	Associated Students Trust Fund
72	Student Representation Fee Trust Fund
73	Student Body Center Fee Trust Fund
74	Student Financial Aid Trust Fund
75	Scholarship and Loan Trust Fund
76	Investment Trust Fund
77	Deferred Compensation Trust Fund
79	Other Trust Funds

80 Agency Funds

81	Student Clubs Agency Fund
82	Scholarship and Loan Agency Fund
83	Foundation Agency Fund
84	JPA Custodian Agency Fund
85	Deferred Compensation Agency Fund
89	Other Agency Funds

ACCOUNT GROUPS

90 Account Group (NOT A FUND)

91	General Fixed Assets Account Group
92	General Long-Term Debt Account Group

• = Account Code determined by district.
Underline = Account Code Illustrative pending statewide automated reporting

Chart of Accounts

REVENUE TITLES

8100 FEDERAL REVENUES

- 8110 Forest Reserve
- 8120 Higher Education Act
- 8130 Job Training Partnership Act
- 8140 Military Personnel Development Contracts
- 8150 Student Financial Aid
- 8160 Veterans Education
- 8170 Vocational and Applied Technology Education Act
- 8199 Other Federal Revenues

8600 STATE REVENUES

8610 General Apportionments
- Apprenticeship Allowance
- State General Apportionment
- Other General Apportionments

8620 Categorical Apportionments
- Child Development
- Extended Opportunity Programs and Services (EOPS)
- Disabled Students Programs and Services (DSPS)
- Other Categorical Apportionments

8650 Categorical Program Allowances
- Community College Construction Act
- Deferred Maintenance and Special Repair Program
- Instructional Improvement Grant
- Other Categorical Program Allowances

8670 Tax Relief Subventions
- Homeowners' Property Tax Relief
- Other Tax Relief Subventions

8680 State Non-Tax Revenues
- State Lottery Proceeds
- Other State Non-Tax Revenues

• = Account Code determined by district.
Underline = Account Code Illustrative pending statewide automated reporting

Chart of Accounts

REVENUE TITLES *(Continued)*

8600 STATE REVENUES *(Continued)*

8690 Other State Revenues

8691 State Mandated Costs
8692 Timber Yield Tax
8693 Trailer Coach Fees
8699 Other Miscellaneous State Revenues

8800 LOCAL REVENUES

8810 Property Taxes

8811 Tax Allocation, Secured Roll
8812 Tax Allocation, Supplemental Roll
8813 Tax Allocation, Unsecured Roll
8814 Voted Indebtedness, Secured Roll
8815 Voted Indebtedness, Unsecured Roll
8816 Prior Years Taxes

8820 Contributions, Gifts, Grants, and Endowments

8830 Contract Services

- Contract Instructional Services
- Other Contract Services

8840 Sales

8850 Rentals and Leases

8860 Interest and Investment Income

8870 Student Fees and Charges

8871 Child Development Services
8872 Community Service Classes
8873 Dormitory
8874 Enrollment
8875 Field Trips and Use of Nondistrict Facilities
8876 Health Services
8877 Instructional Materials Fees and Sales of Materials
8878 Insurance
8879 Student Records
8880 Nonresident Tuition

• = Account Code determined by district.
Underline = Account Code Illustrative pending statewide automated reporting.

Chart of Accounts

REVENUE TITLES *(Continued)*

8800 LOCAL REVENUES *(Continued)*

8870 Student Fees and Charges

- 8881 Parking Services and Public Transportation
- 8882 Sales of Required Instructional and Other Materials
- 8883 Student Center Fee
- 8884 Student Representation Fee
- 8889 Other Student Fees and Charges

8890 Other Local Revenues

8900 OTHER FINANCING SOURCES

8910 Proceeds of General Fixed Assets

- Compensation for Loss of General Fixed Assets
- Sale of Equipment and Supplies
- Sale of Land and Buildings

8940 Proceeds of General Long-Term Debt

- Sale of Bonds
- Other General Long-Term Debt

8980 Incoming Transfers

- Interfund Transfers-In
- Other Incoming Transfers

• = Account Code determined by district.
Underline = Account Code Illustrative pending statewide automated reporting

Chart of Accounts

EXPENDITURE BY ACTIVITY TITLES

INSTRUCTIONAL ACTIVITIES

0100	Agriculture and Natural Resources
0200	Architecture and Environmental Design
0400	Biological Sciences
0500	Business and Management
0600	Communications
0700	Computer and Information Science
0800	Education
0900	Engineering and Related technologies (Industrial technologies)
1000	Fine and Applied Arts
1100	Foreign Language
1200	Health
1300	Consumer Education and Home Economics
1400	Law
1500	Humanities (Letters)
1600	Library Science
1700	Mathematics
1800	Military Studies
1900	Physical Sciences
2000	Psychology
2100	Public Affairs and Services
2200	Social Sciences
3000	Commercial Services
4900	Interdisciplinary Studies
5900	Instructional Staff—Retirees' Benefits and Retirement Incentives

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Chart of Accounts

EXPENDITURE BY ACTIVITY TITLES *(Continued)*

ADMINISTRATIVE AND SUPPORT ACTIVITIES

6000 Instructional Administration
- 6010 Academic Administration
- 6020 Course and Curriculum Development

6100 Instructional Support Services
- 6110 Learning Center
- 6120 Library
- 6130 Media
- 6140 Museums and Galleries

6200 Admissions and Records

6300 Counseling and Guidance

6400 Other Student Services
- 6420 Disabled Students Programs and Services (DSPS)
- 6430 Extended Opportunities Programs and Services (EOPS)
- 6440 Health Services
- 6450 Student Personnel Administration
- 6460 Financial Aid Administration
- 6470 Job Placement Services
- 6480 Veterans Services
- 6499 Other

6500 Operation and Maintenance of Plant
- 6510 Building Maintenance and Repairs
- 6530 Custodial Services
- 6550 Grounds Maintenance and Repairs
- 6570 Utilities
- 6599 Other

6600 Planning, Policymaking, and Coordination

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Chart of Accounts

EXPENDITURE BY ACTIVITY TITLES *(Continued)*

ADMINISTRATIVE AND SUPPORT ACTIVITIES *(Continued)*

6700 General Institutional Support Services
- 6710 Community Relations
- 6720 Fiscal Operations
- 6730 Human Resources Management
- 6750 Staff Development
- 6760 Staff Diversity
- 6770 Logistical Services
- 6780 Management Information Services
- 6790 Noninstructional Staff—Retirees' Benefits and Retirement Incentives
- 6799 Other

6800 Community Services
- 6810 Community Recreation
- 6820 Community Service Classes
- 6830 Community Use of Facilities

6900 Ancillary Services
- 6910 Bookstores
- 6920 Child Development Centers
- 6930 Farm Operations
- 6940 Food Services
- 6950 Parking
- 6960 Student and Co-curricular Activities
- 6970 Student Housing
- 6999 Other

7000 Auxiliary Operations
- 7010 Auxiliary Classes
- 7099 Other Auxiliary Operations

7100 Physical Property and Related Acquisitions

7200 Long-Term Debt

7300 Transfers, and Payments to/for Students
- 7310 Transfers
- 7320 Payment to/for Students

7900 Appropriation for Contingencies

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Chart of Accounts

EXPENDITURE BY OBJECT TITLES

1000 ACADEMIC SALARIES

1100 Instructional Salaries, Regular Salary Schedule

1200 Noninstructional Salaries, Regular Salary Schedule
- Administrators and Supervisors
- Other

1300 Instructional Salaries, Nonregular Schedule

1400 Noninstructional Salaries, Nonregular Schedule
- Administrators and Supervisors
- Other

2000 CLASSIFIED SALARIES

2100 Noninstructional Salaries, Regular Full-time Schedule
- Administrators and Supervisors
- Other

2200 Instructional Aides, Regular Full-time Schedule
- Direct Instruction
- Other

2300 Noninstructional Salaries, Nonregular Full-time Schedule
- Administrators and Supervisors
- Other

2400 Instructional Aides, Nonregular Full-time Schedule
- Direct Instruction
- Other

3000 EMPLOYEE BENEFITS

3100 State Teachers' Retirement System (STRS) Fund
- Academic Instructors and Instructional Aides (Direct Instruction)
- Classified Employees and Instructional Aides (Noninstructional)
  - Administrators and Supervisors
  - Other
- Other Academic Employees (Noninstructional)
  - Administrators and Supervisors
  - Other

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Chart of Accounts

EXPENDITURE BY OBJECT TITLES *(Continued)*

3000 EMPLOYEE BENEFITS *(Continued)*

3200 Public Employees' Retirement System (PERS) Fund

- Academic Faculty Instructors and Instructional Aides (Direct Instruction)
- Classified Employees and Instructional Aides (Noninstructional)
  - Administrators and Supervisors
  - Other
- Other Academic Employees (Noninstructional)
  - Administrators and Supervisors
  - Other

3300 Old Age, Survivors, Disability, and Health Insurance

- Academic Instructors and Instructional Aides (Direct Instruction)
- Classified Employees and Instructional Aides (Noninstructional)
  - Administrators and Supervisors
  - Other
- Other Academic Employees (Noninstructional)
  - Administrators and Supervisors
  - Other

3400 Health and Welfare Benefits

- Academic Instructors and Instructional Aides (Direct Instruction)
- Classified Employees and Instructional Aides (Noninstructional)
  - Administrators and Supervisors
  - Other
- Other Academic Employees (Noninstructional)
  - Administrators and Supervisors
  - Other

3500 State Unemployment Insurance

- Academic Instructors and Instructional Aides (Direct Instruction)
- Classified Employees and Instructional Aides (Noninstructional)
  - Administrators and Supervisors
  - Other
- Other Academic Employees (Noninstructional)
  - Administrators and Supervisors
  - Other

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Chart of Accounts

EXPENDITURE BY OBJECT TITLES *(Continued)*

3000 EMPLOYEE BENEFITS *(Continued)*

3600 Workers' Compensation Insurance

- Academic Instructors and Instructional Aides (Direct Instruction)
- Classified Employees and Instructional Aides (Noninstructional)
  - Administrators and Supervisors
  - Other
- Other Academic Employees (Noninstructional)
  - Administrators and Supervisors
  - Other

3700 Local Retirement Systems

- Academic Instructors and Instructional Aides (Direct Instruction)
- Classified Employees and Instructional Aides (Noninstructional)
  - Administrators and Supervisors
  - Other
- Other Academic Employees (Noninstructional)
  - Administrators and Supervisors
  - Other

3900 Other Benefits

- Academic Instructors and Instructional Aides (Direct Instruction)
- Classified Employees and Instructional Aides (Noninstructional)
  - Administrators and Supervisors
  - Other
- Other Academic Employees (Noninstructional)
  - Administrators and Supervisors
  - Other

4000 SUPPLIES AND MATERIALS

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Chart of Accounts

EXPENDITURE BY OBJECT TITLES *(Continued)*

5000 OTHER OPERATING EXPENSES AND SERVICES

- Depreciation
- Dues and Membership
- Insurance
- Legal, Election, and Audit Expenses
- Personal and Consultant Services
- Postage
- Rents, Leases, and Repairs
- Self-Insurance Claims
- Travel and Conference Expenses
- Utilities and Housekeeping Services
- Other

6000 CAPITAL OUTLAY

6100 Sites and Site Improvements

- Sites
- Site Improvement

6200 Buildings

6300 Library Books

6400 Equipment

- Additional
- Replacement

7000 OTHER OUTGO

7100 Debt Retirement

- Debt Redemption
- Debt Interest and Other Service Charges

7300 Interfund Transfers-Out

7400 Other Transfers

7500 Student Financial Aid

7600 Other Payments to/for Students

7900 Reserve for Contingencies

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Chart of Accounts

BALANCE SHEET ACCOUNT TITLES

ASSETS

9100 **Cash, Investments, and Receivables**

- Cash Awaiting Deposit
- Cash in Bank(s)
- Cash in County Treasury
- Revolving Cash Account
- Investments
- Accounts Receivable
- Due from Other Funds
- Student Loans Receivable
- Employee Advances Receivable

9200 **Inventories, Stores, and Prepaid Items**

- Inventories and Stores
- Prepaid Items

9300 **Fixed Assets**

- Sites
- Site Improvements
  - Accumulated Depreciation—Site Improvements
- Buildings
  - Accumulated Depreciation—Buildings
- Library Books
- Equipment
  - Accumulated Depreciation—Equipment
- Work in Progress

9400 **Other Debits**

- Amount Available in Debt Service Funds
- Amount to be Provided

LIABILITIES

9510 **Current Liabilities and Deferred Revenue**

- Accounts Payable
- Payable to Employees
- Due to Other Funds
- Temporary Loans
- Deferred Revenue

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Chart of Accounts

BALANCE SHEET ACCOUNT TITLES *(Continued)*

LIABILITIES *(Continued)*

9560 Long-Term Liabilities
- Bonds Payable (GLTD)
- Revenue Bonds Payable (GLTD)
- Other Long-Term Liabilities

FUND EQUITY

9600 Fund Balance Reserved
- Noncash Assets
  - Investments
  - Student Loans Receivable
  - Stores and Inventories
  - Prepaid Items
- Amount Restricted by Law for Specific Purposes
- Reserve for Encumbrances (Credit)
  - Encumbrances (Debit)

9700 Fund Balance Unreserved
- Designated for Commitments by Contract or Other Legal Obligation
  - Capital Outlay
  - Collective Bargaining Contracts
  - Leases and Lease—Purchases
  - Personal Services and/or Consulting Contracts
  - Other
- Designated for Self-Insurance Programs
- Designated for Payments Resulting from Court Orders
- Designated for Specific Future Purposes
  - Capital Outlay
  - General Reserve
  - Leases and Lease/Purchases
  - Personal Services and/or Consulting Contracts
  - Revolving Cash Accounts
  - Other
- Nondesignated Fund Balance

9800 Investment in General Fixed Assets

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GLOSSARY OF FINANCE TERMS

Accounting- The process of identifying, measuring, and communicating financial information to permit informed judgments and decisions by users.

Base Revenue- The districts' total prior year revenue from state general apportionment's, local property tax revenue, and student enrollment fees, adjusted when applicable for projected deficits.

Allocation- Division or distribution of resources according to a predetermined plan.

Apportionment- Federal or state taxes distributed to college districts or other governmental units according to certain formulas.

Appropriation- An allocation of funds made by a legislative or governing body for a specified time and purpose.

Assessed Value- The value of land, homes or businesses set by the county assessor for property tax purposes. Assessed value is either the appraised value of any newly built or purchased property or the value on March 1, 1975, of continuously owned property, plus an annual increase. This increase is tied to the California Consumer Price Index but may not exceed 2%.

Auxiliary Operations- Supportive services and/or specialized programs for the general benefit of the college(s). Food service and dormitories are examples of auxiliary operations.

Base Year- A year to which reference is made when projecting a current condition.

Block Grant- A fixed sum of money, not linked to enrollment/FTES measures.

Board of Governors- The statewide governing board of the community colleges. The members are appointed by the Governor. The Board hires the Chancellor of the California Community Colleges and makes policy decisions that affect all districts. The Board may be directed by the Legislature to regulate certain matters and it may choose to regulate others.

Board of Trustees- The local governing board of each community college district. Its members are elected from the service area. The board hires the chief administrator of the district and directs the operations of the district. It makes policy decisions that are permitted or mandated at the local level.

Budget - A plan of financial operation for a given period for a specified purpose consisting of an estimate of revenue and expenditures. (Ideally, an educational plan expressed in dollars.)

Budget Act- The legislative vehicle for the state's budget appropriations. The Constitution requires that it be passed by a two-thirds vote of each house and sent to the Governor by June 15 each year. The Governor may reduce or delete, but not increase, individual items.

Budgeting- The process of allocating available resources among potential activities to achieve the objectives of an organization.

Categorical Funds- Funds received by a district for a certain purpose which can only be spent for that purpose. Examples: Funding for the disabled, EOPS, deferred maintenance, and matriculation.

Chart of Accounts- A systematic list of accounts applicable to a specific entity.

Consumer Price Index *(CPI)* - A measure of the cost of living compiled by the United States Bureau of Labor Statistics. These indices of inflation are calculated regularly for the United States, California, some regions within California, and selected cities. The CPI is one of several measures of economic change.

Cost of Living Adjustments *(COLA)* - an increase in funding for revenue limits or categorical programs. Current law ties COLAs to indices of inflation, although different amounts are appropriated in some years.

Course Classification- All courses offered by a college are classified by area (Examples: Letters and Science, Vocational, Community Services, etc.), by credit given, and by transferability, and this information is submitted to the State Chancellor's Office.

Current Expense of Education *(CEE)* - ECS 84362 - The current General Fund operating expenditures of a community college district excluding expenditures for food services, community services, object classifications 6000 (except equipment replacement) and 7000, and other costs specified in law and regulations.

Deferred Maintenance- Major repairs of buildings and equipment which have been postponed by college districts. Some matching state funds are available to districts which establish a deferred maintenance program.

Education Code- The primary body of law which regulates education in California. Additional laws are contained in the California Code of Regulations, Title 5, the Government Code, and general statutes.

Encumbrances- Obligations in the form of purchase orders, contracts, salaries, and other commitments for which part of an appropriation is reserved.

Enrollment/FTES Cap- A limit on the number of students (FTES) for which the state will provide funding.

Equalization- Funds allocated by the Legislature to raise districts with lower revenue limits toward the statewide average.

Expenditures- Amounts disbursed for all purposes. Accounts kept on an accrual basis include all charges whether paid or not. Accounts kept on a cash basis include only actual cash disbursements.

Fifty Percent Law- Requires that fifty percent of district expenditures in certain categories must be spent for salaries and benefits of classroom instructors and some instructional aides. Salaries of counselors and librarians are not included in this classification.

Foundation Program- An early funding principle for the colleges that set a revenue floor per ADA funded from a combination of state and local sources. The district's local board could raise money beyond that amount through local taxation.

Full-time Equivalent Student An FTES is a student workload measure that represents 525 class (contact) hours of student instruction/activity in credit and noncredit courses. Full-time equivalent student (FTES) is one of the workload measures used in the computation of state support for California community colleges.

Fund - An independent fiscal and accounting entity with a self-balancing set of accounts for recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein.

Fund Balance- The difference between assets and liabilities.

General Fund- The fund used to account for the ordinary operations of the district. It is available for any legally-authorized purpose not specified for payment by other funds.

Inflation Factor- An increase in apportionment provided by the state to reflect the increased cost of operation due to inflation.

Lottery- Approved by voters in November 1984, lottery games began in October 1985. Of the total lottery revenues generated, a minimum of 34% must be distributed to public schools and colleges for "education of pupils." Lottery income has added about 3% to 4% to community college funding.

Mandated Costs- College district expenditures which occur as a result of federal or state law, court decisions, administrative regulations, or initiative measures.

Marginal Funding- A procedure whereby the gain or loss in funds for growth or decline in FTES is computed at a rate which is less than the average revenue per FTES.

Noncredit FTES- FTES earned in noncredit courses, generally adult education.

Object - Expenditure classification category of an item or a service purchased.

Per Capita Personal Income Income before taxes as estimated by the U.S. Department of Commerce.

Program-Based Funding A system whereby a program or activity generates revenue based on a formula or allocation without specifying where and how the funds must be spent.

Proposition 13- An initiative amendment passed in June 1978, adding Article XIII A to the California Constitution. Tax rates on secured property are restricted to no more than 1% of full cash value. Proposition 13 also defined assessed value and required a two-thirds vote to change existing or levy other new taxes.

Reserve - Funds set aside in a college district budget to provide for future expenditures or to offset future losses, for working capital, or for other purposes.

Restricted Funds- Money which must be spent for a specific purpose either by law or by local board action.

Revenue - Income from all sources.

Revenue Limit- The specific amount of student enrollment fees, state and local taxes a college district may receive per pupil for its general education program. Annual increases are determined by Proposition 98 formula or the Legislature.

Shortfall- An insufficient allocation of money, requiring an additional appropriation or resulting in deficits.

Split Roll- A system for taxing business and industrial property at a different rate from individual homeowners.

State Apportionment- An allocation of state money to a district based on total available general revenues less property taxes and enrollment fees.

Subventions- Provision of assistance or financial support, usually from higher governmental units to local governments or college districts, for example, to compensate for loss of funds due to tax exemptions.

Sunset - The termination of the regulations for a categorical program or regulation.

Tidelands Oil Revenues Money from oil on state-owned lands. When available, some of the revenues are appropriated for community college capital outlay needs.

TOP Code- Taxonomy of Programs code number used in budget.

Unencumbered Balance- That portion of an appropriation or allotment not yet expended or obligated.

Unfunded FTES- FTES which are generated in excess of the enrollment/FTES cap.

NOTICE

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