Chapter
30

The Fiscal Environment

Understanding the fiscal role and responsibilities of the governing board means understanding the fiscal environment in which the community colleges operate. California's community colleges are publicly funded institutions; therefore they depend on and respond to the general economy, public support, and the political process. Many factors in the environment influence the decisions boards make. Trustees must consider a complex interplay of economic, political, social, demographic, and legal forces.

Until 1978, local boards of trustees had authority to establish local tax rates for community colleges. Most of the resources used by the colleges came from local property taxes. The tax rates set by the boards determined, to a large extent, the level of funding for the local colleges. However, in 1978, Proposition 13 removed local taxing authority and put limits on property tax rates and increases. The responsibility for determining the level of public funding for the colleges shifted from local boards to state government.

The shift in responsibility changed the role of the boards to what it is today. Boards work within state-determined allocations to establish budget priorities that best serve their local communities. They do so within the constraints of state statutes and Board of Governors regulations on how funds may be used. Their major accountability to the voters is ensuring that the education and services offered by their colleges serves local community needs.

Governing boards, as well as individual trustees, also play a major role by advocating to the legislature and Board of Governors for adequate funding and funding formulas. They may seek support from their local community in their advocacy efforts. They also determine whether to seek local bonds for capital construction and the amount. Boards may support seeking alternative sources of funds through foundations and grants.

Revenue Sources

As stated above, colleges receive the bulk of their resources from the state. The state's appropriation is based on three major sources: state monies, local property taxes, and student fees. In addition, funds from the federal government support specific programs in the colleges. In general, revenues for the California Community Colleges come from the following sources:

- State general fund .... 37 percent
- Local property tax........................ 33 percent
- Other local funds......................... 19 percent
- Student fees .... 6 percent
- Federal .... 4 percent
- Other state funds........................ 4 percent

State funds include general apportionment, categorical funds, capital construction, the lottery (less than 3 percent), and other minor sources.

The colleges collect resident student enrollment fees, but the state considers 98% of the fees as part of the state appropriation. The fees are set by the legislature and the revenue received is considered "within" the Proposition 98 guarantee. However, when fees decline, the Legislature has tended to backfill only the fee revenue, but not the administrative portion of the fees, thus leaving the colleges with less money than anticipated.

Federal resources include financial aid, vocational education, and minor funds designated for specific purposes. Other federal initiatives (such as welfare reform) impact how much revenue comes from the national level. The responsibility to allocate federal funds to colleges is usually delegated to state agencies.

Factors in State Appropriations

How much community colleges may expect depends on the state's economy, how much money the state government has, and the spending priorities of the Governor and Legislature. The recession in the early 1990s resulted in tight budgets for the colleges, but they enjoyed increased funding with the economic growth in the second half of that decade.

The declines in state revenue from the stock market collapse of 2000 and the lost revenue from the state's vehicle license fee led to a return to austere years in the early 2000s. While the state's economy has largely recovered, it will take several years and policy decisions to either cut programs or increase taxes to bring the state's long term budget into balance.

State revenue projections can change dramatically from the initial budget proposed in January to the actual income the state receives during the fiscal year, so the amount of money that is provided to the colleges is often uncertain, even after the prior fiscal year is over.

The amount of state funding for community colleges is determined in large part by Proposition 98, which guarantees a minimum percentage of the state budget for the public school system and community colleges. The precise share of Prop 98 funds for community colleges is negotiated each year in the political process and varies annually, but is just over 10%.

State Appropriations Process

Building the state budget is at least a yearlong process involving local entities, state agencies, the Legislature, and Governor.

Each fall, proposals for changes in the state budget for the following fiscal year are submitted to the Department of Finance (DOF) by every state agency, including the System Office of the California Community Colleges. These proposals are submitted in the form of budget change proposals (BCPs), which are lengthy and detailed analyses of needs, proposed solutions, and expected outcomes. The BCPs for the community college system are developed by the System Office in consultation with state associations (such as the League) and the districts. Department of Finance staff members meet with state agency personnel on each proposal, asking questions and seeking more data or justification. The DOF makes recommendations to the Governor in December, who also meets with agency heads, including the Chancellor of the Community Colleges

By January 10, the Governor presents a proposed state budget to the Legislature. Throughout the spring, the Assembly and Senate hold hearings on the Governor's budget proposal and develop their own budget proposals.

In May, the Governor releases a revised budget proposal known as the May Revise. This proposal takes into account changes in the level of revenue the state expects to receive, as well as the debate and advocacy that has occurred since the initial proposal in January.

June 15 is the constitutional deadline for the Legislature to submit its proposed budget to the Governor. This budget is a result of negotiations within the Budget conference committee to resolve differences between the Assembly and Senate's adopted budgets. It is based on the budgets proposed by each house of the legislature, as well as the Governor's initial proposal and May Revise. If the Legislature's budget is different from what the Governor wants, additional negotiations often occur.

June 30 is the target date for the Governor to sign the budget. Delays in this date often have occurred due to negotiations between the Governor and Legislature. The Governor may veto ("blue pencil") line items in the budget, but cannot add funds.

If a budget is not enacted by June 30, recent court decisions prohibit the State Controller from distributing funds to some public agencies, including community colleges. While most colleges can operate on reserve funds for a month or two, a prolonged budget impasse could require colleges to cease operations until the budget is enacted.

Throughout this process, colleges, state associations, and the System Office closely follow what funds are proposed for community colleges. Local district budgeting is based on educated projections of what the final budget will be. However, due to the state political process and changing revenue projections, colleges often enter the fiscal year without knowing for certain what their state appropriation will be, what student fees can be charged, and what constraints will exist.

In addition, actual revenues from property taxes and other sources may differ from what the state projected. The state's allocation to community colleges has changed during the fiscal year and even after it has ended.

System Office Apportionments to Districts

Once the state budget is approved, the Board of Governors and System Office are responsible for allocating the state appropriation for community colleges to the districts. District allocations take into account revenues from state and local sources, including student fees, as well as the monies targeted for specific purposes in the state's budget.

The formula used to allocate the funds includes many factors, is quite complex, and may change from year to year. A major factor measures how many full-time equivalent students (FTES) are enrolled in the district, which is why community colleges are so concerned about enrollment patterns and growth. However, the formula is also based on the support needed for five different functions of the college:

- Instruction and Instructional Administration
- Instructional Services
- Student Services
- Operation and Maintenance of Plants
- Institutional Support

Other factors that influence district allocations may include "equalization" (the amount of money needed to bring districts with lower revenues closer to the statewide average), needs of urban, new, and small districts, and other unique situations. A few districts are "basic aid" districts—their "share" of the local property taxes generated in these districts is more than what they would receive as a result of the state formula, and therefore their appropriation is based on that amount, rather than the state apportionment process.

Throughout the state's budget development process, the System Office provides projections to the districts based on its "educated guess" of what the state budget will be. Districts develop their proposed budgets based on these projected allocations (the local budget development process is covered in the next chapter).

Local District Advocacy

The System Office, the Community College League, and other state associations spend significant time and effort to influence the state appropriations process to ensure that colleges have sufficient funds. Local districts, led by their governing boards, also are important players in the advocacy process.

Therefore, local boards should be knowledgeable about the state budget process. Legislative advocacy on behalf of the local districts is coordinated by the League working with the System Office, Board of Governors, and other organizations that represent community college interests.

Local district efforts begin in January when they work with the League and the System Office to develop priorities for the Budget Change Proposals that the System Office will submit. The two League boards

(California Community College Trustees and Chief Executive Officers) identify and review proposals for increases in or changes to the following year's state budget proposal. The BCPs are reviewed and negotiated in the Chancellor's Consultation process, which involves representatives from the League as well as faculty, student, and administrative groups. The Chancellor then presents a proposed budget request to the Board of Governors in July and September, and after its review and approval, the budget is submitted to the state Department of Finance.

The League depends on local trustees, CEOs, and college staff to keep in touch with their legislators on a year-round basis to assure the visibility of community college concerns during the legislative session. Districts that have legislative representatives on key committees in the Legislature are particularly important in ensuring that community college interests are heard.

Constraints on Local Districts

State Laws and Regulations

There are a number of factors that influence local budget decisions. The state allocation includes general apportionment and increases (if any) designated for cost of living, enrollment growth, and equalization. These are the most flexible sources of revenue and districts may allocate those for individual college needs.

The state allocation may also contain funds targeted or allocated for specific purposes. Categorical funds are expected to be used for certain purposes, and must be spent for specific services according to regulations developed by the System Office. Examples include programs for certain categories of students, scheduled maintenance, and telecommunications.

State law sets the level for student enrollment fees. State law and regulations also place strict limits on board authority to charge students for other administrative or user fees.

Other laws and regulations determine local allocation of state funds. One law is that 50% of the amount defined as "current expense of education" must be spent on instruction. Another consideration is the goal that at least 75% of student contact hours are taught by full time faculty (commonly known as the 75/25 rule). Districts that do not meet the 50% law must seek waivers from the state. Since the 75/25 ratio is a goal, there is no penalty as long as districts hire the number of full-time faculty designated by the System Office for that year. This is known as the full time faculty obligation.

Other Funding Sources

Funds for capital construction and other major development efforts may be raised through local bonds. Many districts have also turned to other funding sources, including foundations, fundraising and grant-seeking. Partnerships with industry and government have also financially benefited colleges.

Bonds

Major building and facilities development can be funded by lease revenue and local general obligation (GO) bonds. Lease revenue bonds provide districts large infusions of cash by selling district-backed bonds to investors and institutions. Boards may also decide to seek voter approval for GO bonds, which require approval from 55 percent of the electorate.

Foundations and Fundraising

Baccalaureate level institutions have long depended on grants and private funds as a significant source of income. In the past decade, community colleges have significantly increased their use of private fundraising strategies. They have established or expanded foundations to oversee these efforts. They have capitalized on their colleges' unique roles and contributions to the community to garner increased local support for the college.

Foundations are separate entities established by governing boards to raise and administer private funds. Boards should maintain close ties to their foundations to ensure that the foundations' efforts support the policy direction and goals of the district.

Some of the strategies used by foundations include raising money for scholarships, establishing alumni associations and soliciting gifts from alumni, implementing planned giving, and holding special events. Trustees should be willing to fully support such efforts. That support is an important aspect of the board's community relations role.

Asset Management

Assets of the district include land, buildings, and intellectual capital. Certain assets of some districts can be managed to produce income, such as leasing land or space to businesses.

Grants

Grants for specific purposes and programs are available from local, state, and federal governments, as well as private companies and foundations. They make it possible for the college to augment and expand its programs and services for students and the community.

Some state grants are "entitlement" grants, awarded to all districts that qualify. Most grants are competitive and the colleges are required to submit proposals for consideration by the granting agency. Successful grant-seeking requires an investment in people and resources, which may depend on board support.

Partnerships

Partnerships with local businesses and governments often provide additional sources of revenue and support. Business and industry have partnered with colleges to provide funds, space and equipment for instructional programs and services that will serve both the businesses and the local community. Colleges have partnered with local government to build joint facilities, such as recreation areas or libraries. Local redevelopment funds have also been used to help fund improvements in which both the college and community have an interest. Partnerships with K-12 and baccalaureate-level institutions have resulted in shared facilities and programs that enable more students to be served.

The governing board plays an important role in linking with local government officials and community, business, and industry leaders to support and maintain partnership efforts.

Summary

California's community colleges, as public institutions, receive the bulk of their funds through the state budget process. The revenues and allocations are influenced by many complex factors, including the state's economy and the political environment. The amount of money provided to community colleges from the state budget is determined through discussions with the Governor, Assembly and Senate committees, the Board of Governors and System Office, and state associations that represent local interests. Locally elected trustees can be very influential before and during the state budget development process—the Community College League provides much information to assist their advocacy efforts.

Local budget decisions depend on the state appropriation and how it is allocated to the districts. The state budget, state laws, and the Board Governors' regulations determine local budget decisions. Understanding how the state budget and allocations are determined is an important first step for boards in fulfilling their responsibility for the fiscal health of their districts. The next chapter describes the budget process and the role the board plays by setting policy priorities for and adopting the budget.

Chapter 31

Budgets and Budgeting

On or before September 15 of each year, district boards of trustees are required to adopt a balanced budget for that fiscal year. The district budget development process begins many months prior to that action.

The budget itself is a policy document. It translates short-range and long-range planning decisions into financial allocations. The approved budget reflects the values, educational priorities, and future goals of the district and meets all other policy parameters established by the board. The budget is a one-year education and fiscal plan for the district.

Board Responsibilities

1. Establish policy criteria to guide the budgeting process
2. Set general priorities for the budget early in the process
3. Study and understand budget proposals
4. Adopt budgets after assessing proposals against policy criteria and priorities.

Purposes and Nature of Budgets

Purposes

When the budget document is approved, it establishes the priorities for the institution for the ensuing year and links short- and long-range planning. Trustees should spend the time needed to understand the budget proposal, supporting documentation, and any special recommendations.

The budget is a planning and management document. How funds are allocated dictates the operations of the institution; allocations therefore must reflect the specific mission and goals of the college(s). Budget proposals usually contain descriptions of how the goals and objectives are supported by the budget.

The budget also provides the basis for managing and monitoring the expenditures throughout the year; actual revenues and expenditures are compared with budget projections. The projected expenditures alert college officials to cash flow needs.

Once the board adopts the budget, it becomes a policy document. It is the board's statement of priorities for spending money and reserving funds for future expenses. Therefore, the budget should reflect what the board believes is in the best interests of its communities and the future of the district. The budget should reflect and adhere to other board policies.

The budget is also a political document. Budget proposals are negotiated and discussed with many different constituencies—those in the college have asked for what they believe is in the best interests of their programs and the students. Chief executives try to propose a budget to the board that is supported by all. However, there will be times when boards are asked to consider changes to the budget, such as when employee unions desire greater salary increases than are proposed by the CEO. Successful boards are able to justify the budgets they adopt to the general public that they represent.

Approaches to Budgeting

Because revenues and expenditures change throughout the year, alternative budgets are often proposed that reflect different scenarios. A conservative budget proposal will estimate expenditures at a high level and revenues at a low level. An optimistic proposal might take into account all possible savings and limits on spending, and project revenues at the highest feasible level. Generally, the end result is somewhere in between, although there have been years when there have been significant shortfalls in state funds beyond those projected, or natural disasters have created unexpected expenses.

The budget that a board adopts may depend on many factors. Boards will assess the assumptions on which budget proposals are based (discussed later in this chapter). They may not want to be too optimistic because if revenues are not available, they do not want to have made major commitments that will hurt the long-range fiscal health of the district. Nor do boards want to be too conservative in allocating expenditures that will support student success.

Long-Range Projections

Responsible budgeting is more than a year-to-year process. Responsible boards review and discuss long-range plans and implications for the budget for at least the next three to five years. These discussions clarify future fiscal needs. They ensure that the district establishes appropriate reserves for long-range needs and contingencies, and develops strategies for ensuring adequate resources. The discussions may explore the implications for future budgets of the following:

- **Projected growth and enrollment trends.** How much is the community growing, if at all? What is the anticipated enrollment in the future? What type of students will the district serve? How can we manage our enrollment?
- **State and regional trends.** What state and other revenues can we expect? What is the economic and political support for community colleges? What other sources of revenues can we seek? What is occurring in our region that will have implications for long-range budgeting?
- **Collective bargaining agreements, including employee and retiree benefits.** What are the implications for future budgets for the increases proposed and/or agreed to in bargaining? What reserves need to be created to ensure support for retiree benefits? Are projected salaries and benefits an appropriate percentage of the budget? What impact do the proportion of salaries and benefits have on the rest of the budget?
- **Contract commitments and other long-term liabilities.** What proportion of the budget is committed to long-term contracts, debt service, and other ongoing costs? Will revenues be adequate to support these commitments?
- **Facility and maintenance needs.** What new facilities are needed? What are the remodeling and maintenance needs in the next ten or so years? Where will the funds come from to support these costs? Does the district need to go to the voters for capital improvement bonds?
- **Upgrades and replacement of technology and equipment.** The cost of technology will continue to be significant: is there a plan to continually upgrade and replace technology and instructional equipment? What

proportion of the budget is allocated to maintain currency? Where will the revenues come from to support these ongoing costs?

Constraints

The previous chapter noted some state laws and regulations that determine local budgets. Local conditions also constrain the decisions boards make about the budget. Education is people-intensive: personnel costs make up, by far, the largest portion of the budget. At least 80% or more of the budget goes to wages, salaries and benefits. Collectively bargained contracts, tenure, and due process provide security and protection for employees and the district, but they also make it difficult to quickly change employment levels to accommodate changes in revenues.

Other major constraints that limit budget flexibility include long-term liabilities, such as health benefit packages for retirees, leases, vendor contracts, capital construction, and technology and other equipment upgrade and maintenance needs. In addition, insurance, debt service, and other fixed costs limit the discretion of the college staff and board members in developing the budget.

The Budget is Dynamic

The budget is a dynamic document. The budget approved at the beginning of the year is the college's best estimate of projected income and expenditures at that time. It is updated and modified throughout the year as operational and program changes occur.

Projecting revenues is often as difficult as identifying and prioritizing actual expenditures. The amount of state revenues that will be available is rarely known until late in the planning process, and often changes even after budgets are approved.

Boards should delegate sufficient authority to the CEO to allow the flexibility needed to make changes to meet unanticipated needs or respond to revisions in income estimates. Boards generally have policies, practices, or other criteria that describe when board approval is needed to change the budget. The criteria usually state that a major level, percentage, or category of change in the budget is presented to the board for approval, and other changes are delegated to the CEO.

Trustees, as well as college staff, receive periodic reports throughout the year as to how the budget is faring. At a minimum, boards are required to review the quarterly fiscal reports that the district submits to the System Office. Boards should receive sufficient notice about any major changes in assumptions, revenues, and major expenditures, and have an opportunity to discuss their implications, particularly those that affect the ability of the college to meet board policy criteria.

Budget Development Process

Boards are asked to adopt tentative budgets no later than June 15 prior to the beginning of the fiscal year (the fiscal year is from July through June). The purpose of the tentative budget is to provide the district with an operating plan for the next few months. Districts are required to have a final, board-approved budget on or before September 15 for the fiscal year. The final budget takes into account the official state budget and allocations as well as the actual ending balance from the previous fiscal year. Prior to the adoption of the tentative and final budgets, boards hold study sessions or public hearings to review and discuss the proposals.

However, before budget proposals come to the board for review, much work has been done in the colleges. Colleges usually begin planning for the next fiscal year in late fall or no later than January. Various departments and constituencies are engaged in reviewing programs and needs, planning, and establishing assumptions and criteria for the next year's budget. Boards are usually informed about the budget development calendar.

The CEO is responsible to manage the budget building process. The budget is built using policy direction and parameters established by the board as well as a set of general assumptions about revenues and costs.

Assumptions and Policy Criteria

Budgets are based in part on policy level criteria that boards have adopted. For instance, boards may adopt policies or criteria that state that the budget will be balanced using current year revenues, that there will be a contingency reserve of a specified percentage and that no long-term commitments may be made without assurance of future revenues to cover them. Boards have entered into contracts with employee unions that determine salaries and benefits, or board policy may set a target for salaries (for instance that they are competitive with like colleges). Boards may require that technology equipment be up-to-date and that the facilities be well maintained. All of these policies and others influence the budget.

The development of the budget is also guided by assumptions made about the future needs of the district and the revenue the college is likely to receive. They are widely discussed with the board and staff members and usually describe:

- What funds are expected from the state, including the amount of COLA (cost of living increases), growth, lottery, and other additional funds.
- What revenues are expected from federal and local sources, including investments.
- What the enrollment is projected to be, since state funding is dependent in large part on enrollment.
- What reserves are needed for general contingencies, equipment and long-range commitments.
- What major expenditures are planned, including equipment purchase and replacement, technology upgrades, scheduled maintenance, and salary and benefit adjustments.
- What major program changes are planned, including adding, expanding, or reducing programs. What new personnel are needed? What investment in professional development will keep personnel current? What will be the space and equipment needs of new programs?

Constituency Involvement

Identifying projected expenses requires input from the various departments and constituencies in the district and careful prioritization of the many needs and requests. Effective budget processes are inclusive and result in comprehensive information about projected expenses and fiscal needs.

State regulations provide for faculty, staff, and student involvement in the budget development process. The process used to develop the budget proposal varies from college to college. However, the local academic senate is to be consulted collegially in shaping the processes used for developing institutional plans and the budget. The board is not required, though, to rely primarily on the senate's recommendations or reach mutual agreement with the senate on the plans and budget themselves.

The process may include programs or divisions in the college submitting budget requests and needs to an administrative group or college-wide committee to be prioritized. These requests are considered in conjunction with all potential expenditures, including long-term commitments and possible salary and benefit increases.

The public also has an opportunity to comment on the budget, although it is rare that members of the public do so. The board acts for the public when it establishes criteria for the budget and reviews and approves the final document.

Relationship to Strategic Planning

An initial phase of budget development is the planning process. The district's accomplishments and programs are reviewed in the context of future trends, demographic changes, economic constraints, program reviews, and community needs. The review may result in adjustments to the vision, mission, and policy goals, and usually leads to refinements in college plans for the coming year. Budget priorities for the coming year should support implementing the various plans within the district.

The board is often involved in establishing policy criteria for planning, revisiting the vision, mission and goal policies, and identifying broad policy direction and parameters for budget priorities. (See the chapters on planning and educational policy.)

Board Review and Approval

In evaluating the proposed budget, the board should carefully review all projected income and expenditures to make sure that they are realistic. The board should compare the projections against the criteria and assumptions that they discussed earlier. Some of the questions trustees often ask are:

- How does the budget support the vision, mission, and goals of the college(s)?
- What are the assumptions used to build this budget? Have circumstances changed that would change the assumptions?
- Is it balanced? How is it balanced (with projected income, prior year ending balance, one-time funds)?
- Are there significant changes from last year? What are they? Why are they proposed?
- What is the projected ending balance? Is it realistic?
- How large are the reserves? Are reserves being used to balance the budget? Are they adequate to cover long term liabilities? Will they cover fiscal extremes or unforeseen emergencies?
- In multi-college districts, does the allocation formula to each college adequately address its needs?

Prudent boards also ensure that the budget does not contain the following problems:

- unfunded liabilities
- long term commitments that depend on optimistic revenues
- too much unfunded enrollment growth
- reductions in projected enrollment or revenue that are not accompanied by reductions in expenditures
- too large a percentage dedicated to salaries and benefits (e.g. 90 – 95%)
- unrealistic projections of income
- lack of planning for maintenance and upgrading of equipment and facilities
- lack of connection to long range plans of the district
- a decline or an abnormal increase in the projected ending balances over a number of years
- lack of clarity between restricted and unrestricted funds
- unrestricted reserves or ending balances less than 3%.

Understanding Budget Summaries

Budget proposals presented to the board should be clear and understandable. Boards benefit from having a brief summary of the budget and key issues. How the proposed budget takes into account assumptions about revenues and expenditures, and how it meets district goals and policy criteria should be emphasized. For instance, if the board has a policy that the district will have a certain percentage in the reserve, that should be clearly stated.

Trustees are not expected to review individual line items in the budget. Focusing on too much detail obscures how the overall budget meets policy criteria and invites trustee micromanagement. Instead, boards should look at fund and major program categories.

How budgets are summarized and presented varies significantly from district to district—trustees are encouraged to meet with their CEOs and chief business officers to become familiar with the format used in their district. If a board finds the summary difficult to understand, it should request a format that is clear and succinctly responds to policy level questions.

Figure 1 at the end of this chapter is one example of a summary of a budget proposal. It includes major categories found in most district proposals. Districts may provide additional detail in the summary: some will list each fund in each major category, including relatively minor funds. Others provide a broad, succinct overview and make the detail available as back-up information. Some of the major terms and concepts in a budget summary are:

- Beginning Balance: The money that the district begins the year with. It is based on the ending balance from the prior year (which is budgeted), unexpended funds, monies that are expected to be received and other cash on hand.
- Revenues: Income that is expected from state, federal and local sources (highlighted in the last chapter), as well as from specific student fees and fines, interest, non-resident tuition, community services, grants, contracts, etc.
- Transfers: Monies that are transferred to and from reserve accounts.
- Unrestricted: Revenues that are not limited to a specific purpose, including the state general apportionment, Partnership for Excellence, and lottery funds. Expenditures are also categorized as unrestricted to indicate that the local board has the discretion of allocating the expenditures.
- Restricted: Revenues and expenditures that are restricted for specific purposes. Law, regulation, or board policy may restrict funds. Funds restricted by board action may be called "designated" or "committed" to differentiate them from those restricted by external agencies. Examples include the federal vocational education act and other federal program funds; state "categorical" programs such as those for disabled and disadvantaged students; state monies targeted for specific purposes, such as instructional equipment replacement; grants for specific programs; and locally generated revenues such as the health and parking fees. Separate and auxiliary service funds (bookstores, associated students, child development centers, etc.) are reported separately from other funds.
- Reserves: Monies that are set aside for specific purposes. The System Office recommends that the general or contingency reserve be at least 5% (at a minimum 3%) of all expenditures. The board creates other reserves for specific expenses, such as major capital outlay, scheduled maintenance, growth, retiree benefits, sabbaticals, and accrued vacation time.
- Projected Ending Balance: Healthy ending balances provides protection for the district. However, unrestricted or undesignated balances and reserves that are quite large in comparison to the budget (8% or more) may be questioned in that the funds are not being used to deliver programs and services.

Summary

Boards have an important responsibility to review and approve the budget for the district. They are required to adopt a tentative budget by June 15 and a final budget by September 15 (when more accurate financial information is available). When they do so, they make an important policy statement.

The budget is powerful policy—it determines what the district and colleges do. Boards perform their budget responsibilities well when they establish policy criteria and set general priorities for the budget early in the development process. Effective boards study and understand budget proposals and the budgeting process, ask cogent questions, and adopt budgets only after assessing the proposed budget against their policy criteria and priorities. They ensure that the budget includes realistic projections and expenditures that are designed to deliver quality education.

Figure 1. Example of a Summary Budget Proposal

The summary would be followed by more detail on each of the general categories. Multi-college districts will include a breakdown by college and central services (or district office).

Assumptions and Background
Narrative that includes the assumptions on which the budget is based, as well as how the proposed budget meets to board policy and supports district goals and priorities.

Categories[1]	Current Yr Budget[2]	Proposed Budget[3]
Beginning Balance[4] *May be divided into restricted, committed, designated and/or unrestricted funds or reserves.*		
Income or Revenue[5]		
Federal		
State		
Local		
Transfers and Other		
Total Available Funds *This is the total amount that the district has to budget for the year and is the sum of the beginning balance and all revenue sources.*		
Expenditures. *There are two general approaches to describing expenditures. One is by budget category:*[6]		
Academic Salaries		
Classified Salaries		
Benefits		
Supplies and Materials		
Operating Expenses & Services		
Capital Outlay		
Other Outgo		
The second general approach is by type of fund:[7]		
Unrestricted Funds		
Restricted Funds		
Transfers from reserve and contingency funds		
Reserves		
Unrestricted		
Restricted		
Total all Expenditures and Reserves		
Projected Ending Balance *This is the difference between the total revenues and total expenditures.*		

1 The budget summary categories listed are the most general. Some budget summaries will contain more detail, particularly in the income/revenue and reserve categories.
2 The figures in this column are the projections of the current year's revenue and expenditures and are provided to compare current year's figures with projections for the next year. Budget summaries may also be presented that provide information from past years and projections in to future years.
3 The column heading may be "Tentative Budget" after board approval in June and "Approved Budget" once the budget is approved in September.
4 The beginning balance is the "ending balance" from the prior year.
5 The "Fiscal Environment" chapter includes a description of different revenue sources
6 These categories are standard throughout the state and are based on the Budget and Accounting Manual.
7 Unrestricted funds are discretionary. Restricted funds are either restricted by state law, regulation, or local board action.