



**Procedure 205-02 Budget**  
**Sponsor: Business and Administrative Services**

**Purpose**

A budget is an annual financial plan to carry out the College's strategic and operational plans. The purpose of this budget procedure is to outline statutory requirements, principles, process, and assumptions used in the annual budget development process.

**Definitions**

Assumptions: Beginning assumptions provide a financial starting point for developing the budget. The College uses trend analysis, current economic data, and any new legislation to develop realistic assumptions for revenues and expenses.

Budget Requests: Budget requests are requests for increases to a budget that are not covered by a reallocation of funds. Budget requests are prioritized based upon strategic planning initiatives and recommendations from Executive Leadership Council.

**Procedure**

Statutory Requirements

A.R.S. §15-1461 District budget; annual estimate; computation; notice; hearing; adoption

A.R.S. §15-1461 sets forth the requirements for each district established pursuant to chapter 14, and any other community college established prior to the enactment of chapter 14, to prepare a proposed budget for the budget year on a form which the auditor general prescribes to be transmitted to the district board. The proposed budget shall be prepared no later than June 5<sup>th</sup> of each year and accompanied by an estimate of the amount of funds needed for the ensuing year as determined by the district based on the proposed budget prepared by it.

Truth-in-Taxation

The Truth-in-Taxation statute [A.R.S. § 15- 1461.] requires political subdivisions to publish notice of and to hold public hearings on proposed tax increases on existing property. The first publication shall be at least fourteen but not more than twenty days before the date of the hearing. The second publication shall be at least seven but not more than ten days before the date of the hearing.

Expenditure Limitations

Each year, an expenditure limitation is set for political subdivisions of the State of Arizona in accordance with A.R.S. § 41-563. The expenditure limitation is based upon FY 1979/80 and adjusted for changes in the population and cost of living between 1978 and the current year.

Property Tax Levy limitations

Property tax levy limitations for the College are defined by A.R.S. § 42-17015. The levy on existing property may not increase by more than two percent each year.

Debt

Any debt increases by local government that is paid exclusively through the secondary property tax must be approved by voters. Under Article IX of the Arizona Constitution, the total amount of indebtedness of the district may not exceed 15% of the County’s secondary property assessed valuation.

Uniform Expenditure Reporting System

A.R.S. § 41-1279.07 authorizes the Auditor General to prescribe a Uniform Expenditure Reporting System (UERS) for community colleges districts to ensure compliance with the constitutional expenditure limitation prescribed by article IX, §21, Constitution of Arizona.

State Budget Document

The Business Office prepares the budget on state prescribed forms provided by the Auditor General’s Office. The preliminary budget is presented to the District Governing Board at the April meeting. Once the preliminary budget has been presented, it cannot be increased for any reason. The College is required to follow statutory requirements, as set forth herein, for posting and advertising the preliminary budget for the public. In May, the District Governing Board holds a public hearing, a tax hearing, and a special board meeting to formally approve the budget through a roll call vote. The budget is required to be submitted by June 20<sup>th</sup> each year.

Budget Techniques

A description of budget techniques that the College uses is listed in the table below:

Incremental Budgeting	The College primarily uses an incremental budget process. An incremental budget means that the prior year base budgets are the starting point, and incremental changes are made to the base budget by accounting line item. Increments can be based upon changes in the Consumer Price Index for salary adjustments or full-time student equivalents for tuition and fee revenue.
Modified Open-Ended Budgeting	The College uses a modified open-ended budgeting process with budget managers who submit budget requests. The budget managers and the budget office will try to reallocate resources and negotiate budget requests to try and fit available resources. Requests that are over the budget managers’ available resources are compiled for further review by Executive Leadership.
Zero-Base Budgeting	The College also uses zero-base budget process for travel and other account categories on a rotational basis. Zero-base means that the budget begins with “zero,” and all expenditures must be justified.
Program Budgeting	The College uses program budgeting with budget managers who have been delegated the responsibility of a program that is assigned an organizational budget code to cover its operations. The budget codes are then combined at the program level. All of the program codes are then combined to create the College budget.
Estimating	The College uses trend analysis to develop realistic assumptions for revenues and expenses for the budget development process.

Budget Organization

An explanation of funds and program codes used to organize the College’s accounting is described below. Funds are based on the Uniform System of Accounting and Financial Reporting for Arizona Community College Districts and program codes are established by The National Association of College and University Business Officers (NACUBO) Financial Accounting and Reporting Manual for Higher Education.

*Funds*

1. General Fund is used to account for all general operations of the College and is the largest fund.
2. Auxiliary Fund is used to account for self-supporting activities that perform a service to students.
3. Restricted Fund is used to account for resources that are restricted by outside donors or agencies such as grants, contracts, and financial aid.
4. Loan Fund is used to account for federal loan programs.
5. Unexpended Plant Fund is used to account for equipment, or the construction or improvement of buildings.
6. Retirement of Indebtedness is used to account for the resources for payment of principal in interest of debt.

#### *Program Codes*

1. Instruction – activities directly related to instruction including faculty salaries, benefits, and supplies
2. Public Service – activities provide non-instructional services beneficial to individuals or groups external to the institution
3. Academic Support – activities that support instruction including libraries, academic computing, curriculum development, and deans' offices
4. Student Services – non-instructional, student-related activities such as recruitment, admissions, advising, career counseling, financial aid, and student clubs and organizations
5. Institutional Support – general administrative services such as executive management, legal and fiscal operations, human resources, and public relations
6. Plant Operations and Maintenance - service and maintenance of the physical plant, buildings and grounds, utilities, and property insurance
7. Scholarships – institutional spending on student scholarships, including restricted federal financial aid

#### Budget Principles

The College established the following principles to guide the budget development process:

1. Serve the greatest educational needs of the residents of Coconino County
2. Be good stewards of public taxpayer funds
3. Take a long-term view versus a short-term view to ensure financial sustainability of the College
4. Maintain affordable tuition and fees to ensure accessibility to the community
5. Use student performance measures and data to make the best decisions for our students and community
6. Use Strategic Planning goals to determine the allocation of limited resources
7. Use a program review process to evaluate programmatic and financial data and optimize resources
8. Provide an open and transparent process and communicate broadly to the College and community

#### Executive Leadership Council

The College's Executive Leadership Council provides guidance in developing the annual budget. This Council provides input into developing broad assumptions, tuition and fee recommendations, and prioritizing requests for resource allocation based upon strategic planning goals and priorities.

### Budget Development Calendar

<b>Month</b>	<b>Actions Taken</b>
November	<ul style="list-style-type: none"><li>• Review performance measures data, strategic plan, and economic data. Presentation of beginning assumptions.</li><li>• Distribution of tuition and fee schedules, base budget reallocation, and travel justification forms to budget managers.</li></ul>
December	<ul style="list-style-type: none"><li>• Tuition and fee recommendations are due to Business Office. Executive Leadership Council reviews tuition and fee requests and develops recommendations.</li></ul>
January	<ul style="list-style-type: none"><li>• District Governing Board work session to review assumptions and tuition and fee recommendations</li></ul>
February	<ul style="list-style-type: none"><li>• Seek broad input from students regarding tuition recommendations</li><li>• Hold Collegewide Budget Hearings to review budget reallocations and requests to promote transparency and understanding of the Budget.</li><li>• Compensation Committee provides recommendations to Executive Leadership</li><li>• Executive Leadership Council reviews budget requests and makes recommendations based upon strategic planning initiatives and operational priorities</li><li>• District Governing Board approves tuition and fees and provides direction on salaries and benefits</li></ul>
March	<ul style="list-style-type: none"><li>• Budget managers review and confirm budgets</li></ul>
April	<ul style="list-style-type: none"><li>• Executive Leadership Council and District Governing Board review preliminary budget</li></ul>
May	<ul style="list-style-type: none"><li>• District Governing Board holds public hearing and tax hearing</li><li>• District Governing Board final budget adoption and Collegewide budget presentation</li></ul>

### Budget Kick-off Meeting

The Business Office prepares and presents budget information annually for budget managers to use in preparing their budgets. The budget information typically includes the strategic plan, budget calendar, consumer price index, and preliminary assumptions including enrollment projections, tuition increases, state appropriations, and property tax increases.

### Budget Hearings

In February of each year, College-wide Budget Hearings are held to review base budgets, reallocations, and budget requests.

1. During the meetings, three years of budget-to-actual trend data are reviewed.
2. Budget requests are covered first through any reallocation of funds by the budget manager or division funds. If the budget request is not covered by reallocated funds, then the net difference is listed on a budget request spreadsheet for further review.
3. Budget reallocations are entered by the Business Office and sent back to the budget manager for his/her review and approval.

### Budget Book

The Business Office prepares a budget document annually that provides comprehensive information regarding the budget all in one place. The budget book includes performance measures, strategic plan, and college priorities, economic data, trend analysis, challenges and solutions, resource allocation, revenue and expense details, grants, and the state budget document. The budget documentation, including the budget presentations, budget book, state budget document, are available on the College website from the Business & Administration webpage.

## Revenues

### *Enrollment*

Enrollment projections are based upon trend analysis and Coconino County projections for population growth.

### *Tuition and Fees*

Tuition and fee rates are reviewed annually. Smaller incremental increases are preferred because they are easier to manage financially than waiting and implementing large increases all at once. In addition, attention is paid to ensure tuition and fees are fairly and equitably priced. Based upon value to the community, some tuition and fees may be partially subsidized through other district revenue sources. Trend analysis of enrollment within the different rates of tuition is used to project tuition revenue.

1. Standard tuition rates – rates are based upon long-term tuition pricing strategy and reviewed annually.
2. Differential tuition rates - Specialty tuition rates for higher-cost programs are added to the standard tuition rate per credit hour. Specialty tuition rates are based upon cost of supplies by subject area; however, some subject areas have been partially subsidized because of the value they provide to the community. The academic deans review specialty tuition rates for higher-cost programs, market data, and instructional expenses to determine if increases to specialty tuition rates will be recommended.
3. Out-of-County tuition is a multiplier of the in-state rate by 1.15
4. Out-of-state Western Undergraduate Exchange (WUE) tuition is a multiplier of the in-state rate by 1.5.
5. Out-of-state tuition is a multiplier of the in-state rate by 3.5. The pricing strategy for out-of-state tuition is based upon recovering at least the full cost of attendance and is reviewed annually against market data.

Tuition and fee recommendations are taken to the Board in January in a work session to review recommendations and receive direction. The Board approves tuition and fee rates in February for the next academic year.

### *State Appropriation Aid*

Estimates for State Appropriation aid are based upon statutory formula (A.R.S. §15-1466) and are incremental changes based upon increase or decrease in the audited full-time student equivalent (FTSE) between the two most recent fiscal years. One FTSE equals an average of 15 credit hours in each of the fall and spring semesters, for a total of 30 credits hours for one year. The state aid funding is differentiated based upon two enrollment categories of non-dual enrollment and dual enrollment.

### *STEM and Workforce Programs State Appropriation Aid*

STEM aid is restricted to science, technology, engineering, mathematics, and workforce programs. Estimates for STEM and Workforce Programs State Appropriation aid are based upon statutory formula (A.R.S. § 15-1464), which is based upon funding per audited full-time student equivalent (FTSE) of the most recent fiscal year. The FTSE is divided into two enrollment categories of non-dual enrollment and dual enrollment. The estimate is calculated using the audited FTSE multiplied by the prior rate per enrollment category.

### *Property Taxes*

By February 10th of each year, the County Assessor's Office provides a levy limit worksheet. The primary levy cannot exceed the prior year levy by more than two percent plus new construction added to the tax

rolls. The Board typically adopts the maximum allowed tax rate and is required to follow statutory Truth-in-Taxation (TNT) requirements. Property lease excise taxes are also included under property taxes.

#### *Other Revenues*

Other revenues include gifts, grants and contracts, investment income, and other income, including bookstore income, non-class fees such as parking fees, and lease income. Trend analysis, increases in the consumer price index (CPI), and recommendations for increases in non-class fees are used to estimate other revenues.

#### *Grants*

Grants are a useful potential source of revenue to the College but must be used in a way that promotes the financial sustainability of the College. See Policy 206-00 Grants Procedures 206-01 through 202-06 for more information.

#### *Carryforward*

Carryforward funds are one-time sources of revenue and are not expected to continue. Carryforward funds are used for unexpected revenue shortfalls, one-time expenditures such as capital or equipment, one-time startup costs. They are not used for ongoing operating expenses.

#### Expenditures

##### *Salary and Benefits*

Salary and benefits are the largest expenditure of the College and account for approximately 78% of the General Fund budget. Salaries and benefits are budgeted centrally by the Business Office. The Board has directed staff to conduct a salary survey every other year. In alternate years, employees and supervisors may request position reviews or reclassifications. The Board reviews and provides direction on salaries and benefits at the February and March meetings, respectively. The Board's allocation includes any increases for CPI, merit, market, reclassifications and benefits for all faculty and staff.

The Arizona State Retirement System (ASRS) establishes the required employee and employer contribution rates each year.

Health benefits are determined through the Northern Arizona Public Employees Benefit Trust (NAPEBT) which is a trust formed by local public employers to provide cost-effective benefits packages to their employees. The benefits covered include self-funded medical, vision and pharmacy, and traditional life, and voluntary benefits such as dental insurance and short-term and long-term disability.

##### *Travel*

All travel expenses are zero-based and must be requested and justified each year. Travel expenses are sorted into three categories: in-district travel, in-state travel, and professional development travel. Supervisors and budget managers typically pool travel funds and alternate which employees are able to receive professional development funds from year to year.

Professional development travel is allocated annually on an FTE basis to benefit-eligible positions based upon classification of Administrator, Professional Technical and Faculty (exempt), and Classified staff (hourly).

### *Capital Equipment*

The College allocates funds for preventative maintenance projects annually, based upon a cost per square foot indexed by the CPI. Allocated funds not used in any one year are rolled over and reserved for future preventative maintenance projects. This process allows the College to set funds aside annually for larger projects.

The College has preventative maintenance schedules for 20 years. that include major maintenance and replacement of items such as HVAC units, roofs, parking lots, and carpeting. The Executive Director of Facilities assesses the condition of the facilities and adjusts the schedules annually, or as needed, to ensure the facilities are maintained and the life and safety of the students and staff are protected. Any capital items that improve or extend the life of the facilities and are over \$5,000 are capitalized and budgeted in the Plant Fund.

### *Non-Capital Equipment - STEM, Institutional Technology, and Other Equipment*

The College budgets annually for institutional technology and other equipment. To receive funds, a requestor completes a budget request form. The equipment requests are prioritized based upon strategic planning initiatives and recommendations from Executive Leadership Council. Any equipment items over \$5,000 are capitalized and budgeted in the Plant Fund.

### *Presidents Contingency Fund*

An allowance of \$100,000 is budgeted for unforeseen expenditures and is expended at the President's discretion.

### *Contingency Fund*

A contingency is budgeted in the General Fund from reserves (also known as Fund Balance) and is to be used for emergencies or revenue shortfalls. If the contingency is not used it is returned to the Fund Balance.

## **References**

A.R.S. §15-1461 District budget; annual estimate; computation; notice; hearing; adoption

A.R.S. §15-1461.01 Truth in taxation notice and hearing; roll call vote on tax increase; definition

A.R.S. §15-1464 State aid per capita distribution for science, technology, engineering and mathematics and workforce programs; fund; appropriation; report

A.R.S. §15-1466 State aid; eligibility; limits

A.R.S. §41-563 Expenditure limitations; determination by the commission; definitions

A.R.S. §41-1279.07 Uniform expenditure reporting system; reports by counties, community college districts, cities and towns; certification and attestation; assistance by auditor general; attorney general investigation; violation; classification

A.R.S. § 42-17015 Primary Property Tax Levy Limits

Policy 206-00 Grants

Procedure 206-01 Grant Application

Procedure 206-02 Grant Management

Procedure 206-05 Time and Effort Reporting for Federal Grants

Procedure 206-06 Grant Closeout

Arizona Constitution, Article IX, §21

National Association of College and University Business Officers (NACUBO) Financial Accounting and Reporting Manual

Government Finance Officers Association (GFOA) Budget Award Criteria

Uniform System of Accounting and Financial Reporting for Arizona Community Colleges

**Revision History**

03/11/2015 New

10/16/2020 Revised and Approved by Executive Leadership Council

**Legal review**

10/18/2020