

September 5, 2025

MEMO FROM THE CHANCELLOR TO DISTRICT COMMUNITY ON 25/26 BUDGET

With the adoption of the 2025-26 final budget scheduled for the next regular Board meeting on September 10, 2025, this memo addresses the current state of the District’s Unrestricted General Fund budget. I wanted to take this opportunity to share with all employees the salient highlights of our budget and the overall fiscal health of the District. It is important that we are aligned in the foundational concept that we are all responsible stewards of the public trust, and that it is incumbent upon us to work together to ensure the long-term fiscal stability of this District to the benefit of our employees and the students and communities we serve.

I. SMCCCD BUDGET REMAINS STRONG BUT WITH SOME CHALLENGES

A. SITE ALLOCATIONS HAVE NOT BEEN CUT AND ARE \$11 MILLION HIGHER THAN LAST YEAR

Our budget remains strong and balanced. No reductions to the District budget have been made, and, therefore, no cuts have been made to the site allocations. In fact, the three colleges have received increased funding every year for the past four years. For example, the site allocations for this year are compared to those of last year below. The highlighted yellow area indicates the year-over-year increases.

	FY2024-25 Adopted	FY2025-26 Adopted	
<u>Site Allocations</u>			25-26 over 24-25
Canada College	36,319,315	\$ 39,272,344	\$ 2,953,028
College of San Mateo	57,384,586	\$ 59,630,287	\$ 2,245,700
Skyline College	59,941,685	\$ 62,822,203	\$ 2,880,519
District Office	24,102,080	\$ 26,335,888	\$ 2,233,808
Facilities	19,683,573	\$ 21,034,131	\$ 1,350,558
Subtotal	\$ 197,431,239	x \$ 209,094,852	\$ 11,663,613

This allocation above represents our Unrestricted General Fund (Fund 1). It does not include additional non-Fund 1 state revenues to the District totaling \$26.2 million for 2025-26, the bulk of which is distributed to the campuses.

It’s important to note that, as a public institution funded by taxpayer dollars, we are obligated to be responsible stewards of the public trust and spend within our allocations. SMCCCD Board Policy 8.11(2)(c) requires each college to operate within the allocations of the current budget, and the President of each college is responsible for operating the campus within the limitations placed by the budget. In addition, Administrative Procedure 8.11.1 requires that funds be used as intended by the various funding sources, that budget matters are appropriately recorded and reported, and that the institution "lives within its means." Our fiscal approach requires each campus to plan and spend responsibly. If one campus exceeds its allocation, it creates inequities and could have a negative impact on the other sites.

B. FUNDS MUST BE TRANSPARENTLY USED FOR THE PURPOSE INTENDED.

As I mentioned above, BP 8.11 requires funds to be used in accordance with the budget. This past spring, I discovered vacant positions were receiving ongoing funding, even in cases where the positions hadn't been filled since 2008. This effectively created non-transparent savings accounts that earn interest through COLA and step/column adjustments for phantom employees. Given our District's emphasis on transparency and accountability, when we discover practices that are not in alignment with this emphasis, we must correct the issue and change our practice. As such, at Chancellor's Cabinet, we decided together to take the corrective measure to defund the backlog of vacant positions that had no recruitment efforts for more than 24 months, effective July 1, 2025. To ease the burden of this change, the District augmented the budget with ongoing funds at each site so that those funds could be transparently used for the purpose intended—the prioritized needs at each of the campuses.

Before defunding the aged-out positions, a few requests were granted to keep some crucial positions, and those have now been filled or are in active recruitment. Looking ahead, we will adopt a standard practice of defunding vacant positions older than 24 months without active recruitment, after consultation with Chancellor's Cabinet. This approach strengthens accountability, ensures transparency, and supports equitable resource distribution across all sites.

II. LACK OF EXTERNAL CAPITAL IMPROVEMENT FUNDS PUTS PRESSURE ON THE BUDGET FOR FACILITIES AND SCHEDULED MAINTENANCE SPENDING

When I first became Chancellor (interim) in April 2023, I discovered that the District did not have identified funding to address ongoing capital improvement or scheduled maintenance needs, which are much greater than available funds. The last of the Measure H bond funds had already been allocated without a contingency plan to address future projects.

In November 2024, I presented a strategy to the Board of Trustees to address the District's needs, which included short-, mid-, and long-term actions for consideration. I have been working publicly with our Board on this strategy to ensure a stable future for our capital improvement and scheduled maintenance needs. Internally, I have worked with our district and presidential colleagues to prioritize capital improvement projects districtwide, ensuring we don't unwittingly overspend in a time of uncertainty.

The sunset of Measure H dollars also has budget impacts not readily seen, such as the funding of positions that carry capital improvement functions that bond dollars can support. When those bond dollars are no longer available, the District must step in to cover the cost of those positions.

A. SHORT-TERM STRATEGY: CREATE A BRIDGE FUND TO ADDRESS PRIORITIZED NEEDS

The Chancellor's Cabinet took many steps to understand our facilities and scheduled maintenance needs. We worked intensely to ensure that health and safety needs received priority for funding. We spent one-time funding held by the three campuses on those prioritized capital improvements, such as field replacements at Skyline, Building 30 improvements at CSM, and the new Child Development Center at Cañada. We are now prudently holding the remaining one-time capital improvement funds (\$55.8 million) in our Bridge Fund to address urgent needs as they arise while we develop and implement a longer-term funding plan.

B. MID-TERM STRATEGY: EXPLORE PRIVATE FINANCING, PUBLIC/PRIVATE PARTNERSHIPS, AND PUBLIC FUNDING OPPORTUNITIES

As presented to the Board of Trustees in November 2024, the District has identified a mid-term need of approximately \$818 million for capital improvement and scheduled maintenance funding. We are working publicly with our Board to explore the feasibility of obtaining external financing— both public and private. If we are successful in securing external funding to address our most pressing needs, some of the budget pressures for facilities and scheduled maintenance will be alleviated. This would be a notable relief to our campuses, which can have more breathing room with available funds for investments in programs and services—in other words, securing external financing benefits all of us.

C. LONG-TERM STRATEGY: SET ASIDE FUNDS TO START A NEW SELF-FUNDED CAPITAL IMPROVEMENT PROGRAM

Alongside our short-term Bridge fund and our mid-term financing strategies, the Board also approved a long-term (2035 and beyond) strategy to self-fund capital improvements. The Board authorized \$10 million in one-time funds to start a new savings plan for capital improvements and scheduled maintenance. Over time, and in decades to come, as this account grows, it will reduce the District’s reliance on ballot initiatives and give the District autonomy in funding its capital improvement needs.

III. ASSESSED VALUATION IS SOFTENING WHICH LESSENS THE AMOUNT OF NEW FUNDING COMING TO THE DISTRICT

The Assessed Valuation (AV) in San Mateo County is softening. In past years, we have experienced significantly higher levels of AV, resulting in increased funding for the District and its sites. The current downward trend in AV sends us a message that we must be more conservative in our permanent, ongoing commitments.

Below is a chart that shows the past three years of the County’s projected AV and where we landed with actual property tax collection. We anticipate landing below the projected 4.8% AV for FY 2025/26, in line with the trend of the prior two years.

	FY22-23	FY23-24	FY24-25	FY25-26
1				
2	8.34%	6.87%	5.75%	4.80%
3	9.94%	5.85%	4.07%	tbd
4	1.60%	-1.02%	-1.68%	tbd
5				

IV. FEDERAL FUNDING CONTINUES TO CARRY UNCERTAINTY

Given the uncertainties at the federal level and threats to federal funds, the District has placed a freeze on hiring new employees into permanent positions in programs that are federally funded. Thankfully, we have not had to make any changes to our federally funded programs yet. Still, we are keeping a watchful eye and collaborating with our state and federal partners to assess and stay ahead of any future impacts.

V. DISTRICT RESERVES ARE REQUIRED

Board Policy 8.11(2)(f) states that as part of the District's contingency planning, the Unrestricted General Fund reserves shall be no less than the recommendation made by the California Community College Chancellor's Office (CCCCO). The CCCCCO recommends that districts follow the budgeting best practices published by the Government Finance Officers Association (GFOA), which suggests a minimum unrestricted reserve equivalent to at least two months of annual operating expenditures.

Our Board of Trustees has set the required District reserves to approximately \$46 million, which represents two months of the District's annual operating expenses. These reserves are **one-time funds** set aside to ensure the fiscal stability of our programs and services in the event of emergencies and economic downturns, specifically to manage cash flow and payroll.

VI. CONCLUSION: OUR BUDGET REMAINS STRONG AND BALANCED DESPITE UNCERTAINTIES

Given the uncertainties with the federal government, the AV softening, and other economic uncertainties, our budget remains strong and balanced. However, these uncertainties carry risks. The District's approach is to mitigate those risks with prudent management of the budget, maintenance of reasonable reserves, exploration of external funding for capital improvements, and responsible spending within our limits.

I look forward to our work together to ensure the long-term fiscal stability of this District, benefitting our employees, and the students and communities we serve.