

Board of Trustees Agenda Item

Board Meeting Date: June 7, 2010

Title of Item: Update on 2010-11 Budget

Background and Analysis:

Attached is a memo and a series of exhibits that will be discussed with the Board regarding development of the 2010-11 Tentative Budget. This is an information item only as the action to approve the Tentative Budget will take place at the June 21 Board meeting.

Recommendation: Information Only

| | |
|---------------------------|-----------------------------|
| Submitted by: | Mike Brandy, Bernata Slater |
| Additional contact names: | |
| Is backup provided? | yes |



May 20, 2010

To: Linda M. Thor

From: Andy Dunn
Bernata Slater
Mike Brandy

Subject: **Update on 2010-11 Budget**

At the Board meeting of May 3, 2010 the following memo was discussed with the Board of Trustees along with a set of attachments. The basic content of that memo is still valid at this point of the budget development cycle and will be represented in the detail of the Tentative Budget, which will be submitted for Board review at the June 21 meeting. The exhibits, which are attached, have changed only slightly based on continual development of the detailed budget, but there have been no changes to the fundamental revenue and expense adjustments.

We did want to take this opportunity to comment on the implications of the Governor's May Revise, which was released last week. From a broad perspective, California faces another year of deep cuts in services and painful decisions about how to obtain new revenues. The overall deficit for the State continues to hover around \$7.7 billion for the 09-10 year and \$10.2 billion for the 10-11 year, daunting numbers to say the least. The Governor's proposal for closing that gap as re-iterated in the May Revise is to cut the state services by \$12.2 billion, count on \$3.4 billion in Federal assistance (which seems plausible), count on \$2.6 billion from borrowing and shifts in revenue sources and about .9 billion in other solutions.

The Governor protected higher education from any of these deep cuts as he promised in the January budget proposal. For community colleges, he continues to endorse a restoration of the FTES cuts from last year (3.39%) of about 2.2%, which would be welcome news for the many students trying to access our community colleges.

While we can applaud the Governor's support of higher education and the community college system in particular, almost all observers close to the Capitol will say that it is unlikely to hold as the cuts to health and human services are so deep that they will not and cannot be approved by the legislature.

While no one can predict the outcome of what will surely be a deeply passionate and partisan battle to craft a compromise budget, we believe that we will probably not see any enrollment restoration money; we will probably see some moderate increase in student fees, and quite possibly some reduction in the general fund. (It appears that there would not be cuts of any magnitude in the categorical funds as most state advisors think they cannot be cut any deeper.)

What does this mean for our budget? We believe we could expand our schedule quickly if the State were to give us restoration money. We believe that we are well positioned if we have to take any additional moderate cuts in the general fund, that is, we can carry that deficit through the year with our projected ending balance. We recommend that we continue to implement our budget strategies as defined over the last 6 months, while at the same time paying close attention to the Sacramento discussions to see if there will be any reason to change this strategy over the course of the next few months.

We did receive some welcome news this week from the state relative to property tax collections for 09-10. It now appears that, unlike it was recently projected, the statewide property tax collections will come in very close to the 09-10 Budget. This would mean that the 1% deficit factor we had budgeted in our local budget would be reduced to close to zero, thus increasing our estimate of 09-10 revenues by a little over \$1 million. Those funds will add to our ending fund balance and provide additional cushion to sustain cuts in 10-11, and/or 11-12.

Memo from the May 3 Board meeting:

“The Board of Trustees has been discussing the 2010-11 budget for a period of months. Anticipating that significant reductions would have to be made for 2010-11 because of state cuts to general fund apportionment revenues, rising costs, and deep cuts to the categorical programs, the district strategy to balance the budget was formulated last fall and is currently being implemented. An in depth review of the causes of the budget deficit, as well as recommended solutions to balance the budget, was presented to the Board on April 5, 2010.

Meantime, the detailed preparation of the 2010-11 budget has continued. We are at a point now where we will be freezing a set of assumptions for revenue and expenses and preparing the 2010-11 Tentative Budget. There is a need to remind all parties that the underlying assumptions for budget development will continue to change until the Governor actually signs the state budget into law for 2010-11 sometime in July or even later.

The purpose of this budget review is to outline changes in major assumptions on revenue and expenses and show at a very broad level how those changes will impact the strategy to a balanced the budget for 2010-11.

REVENUE ASSUMPTIONS

Apportionment: Last summer we anticipated that the state would reduce our operating budget by about 4% and we made the corresponding reduction in apportionment revenue. When the actual calibration of the reduction to state revenue was known, it became 3.39%, slightly less than we originally budgeted. Consequently, our revenue estimates were increased by about \$500,000. Since we were already serving more students than we were being paid for, we did not have to increase expenses to secure that additional apportionment revenue.

A second positive factor in the apportionment area was the result of our final recalculation of FTES for the 2008-09 fiscal year. Under the provisions of SB 361, a district receives a “base allocation” for the college and then receives a per unit rate for all FTES. The base allocation is

calibrated to increase in certain broad bands of FTES. If the FTES of a college is between 10,000 and 20,000, the base allocation is \$3.9 million. However, when the college exceeds 20,000 FTES, the base allocation is increased to \$4.4 million, resulting in an increase in the overall apportionment of \$500,000. When De Anza re-certified their FTES for 2008-09 in November, they just barely crested over the 20,000 margin at 20,087, thus qualifying for the additional apportionment. Generally, there would be no question that this is ongoing money, but the wrinkle this year is that because of the workload reduction, De Anza will fall below the 20,000 FTES level in 2009-10. We are working with the state to recommend a hold harmless provision for this event, but in the meantime we will consider this additional base allocation to be ongoing apportionment dollars available to us in 2010-11.

Non-resident Tuition: Early in this year we saw a slight softening of non-resident enrollment and reduced the revenue estimates for 2010-11 down by \$350,000. It appears that the winter quarter enrollments have recovered slightly and we have now re-instated the \$350,000 into our revenue estimates, in effect projecting the same revenue for 2010-11 as for 2009-10.

On the downside of the revenue assumptions, we lost about \$250,000 in additional revenue due to the categorical cuts in the part time faculty compensation program.

When this assumption is combined with all the other revenue changes, there is still a net gain to revenue for 2010-11 of approximately \$1 million. That is welcome news!

EXPENSE

Full Time Positions: This has been a complex year for rolling forward our full time faculty, classified and management positions. As reviewed with the Board at the April meeting, there were many changes made to contract positions to cope with the \$10.6 million deficit. These changes included elimination of vacant positions, moving some positions to other funds and funding sources, and contract reductions to some filled positions. We believe that all of these changes are now reflected in the detailed position budget and that we have properly accounted for all the movement. (It has been particularly challenging to account for all these changes while at the same time going live on the HR Banner position control in July 2010). All of the changes and elimination of positions categorized as “escrow I”, “phase I” and “escrow II” have been eliminated from the operating budget for 2010-11 in these sets of assumptions. Funds will be set aside from one time money for the escrow II positions to carry those through the 2010-11 year while solutions are found to incorporate those back into the operating budget as we believe we cannot run the district without those positions. There are a few more positions that we will carry through June 2011 until we find out what the final state budget will be. This strategy was developed in December 2009 and has not changed.

Step increases, part time faculty equity salary increases, professional development leaves, and staff development leaves, have all been funded and incorporated into the 2010-11 expense assumptions. There have been no changes in those assumptions.

Medical Benefits: The budget has been loaded to reflect the MOUs with all the unions reflecting the district’s and active and retiree employee contributions for the 2010-11 year. It

should be emphasized that while the district's and employee contributions are fixed for 2010-11, the actual costs will vary. Ideally, the actual costs will come in right at the contribution levels, but in the event the actual costs are higher than the contribution levels, funds will be drawn from the medical rate stabilization fund to offset these increases on a one-time basis. We are projecting at this moment (second quarter end estimates) approximately \$5 million in our medical stability fund to offset any future medical costs increases.

Utilities: The revised assumption for utility cost has led to a decrease in that line item by about \$700,000. This is the result of a complex combination of factors including slight decreases in the per unit rates for gas and electric and the anticipated impact of the large solar grid at Foothill being completed this summer. This is welcome news on the utility front.

Special Ed Match: Because of the reduction in the categorical Special Ed Program, the district match for that program has been reduced by about \$300,000 from our previous assumption.

Expense Summary: Because of the changes in assumptions to utilities and the Special Ed match, the overall expense budget is reduced by about \$1 million from earlier assumptions.

SUMMARY

When the increased revenue assumptions and the decreased expense reductions are combined, the net effect is a change of about \$2 million to the "good", resulting in a budget that is balanced with \$2 million more in revenue than expenses.

This is a good position for the district to be in at this stage of budget development. If all of the major assumptions on revenue were to hold firm, it would mean that a large portion of the 'Escrow II' positions could be reinstated into the operating budget when the state budget is signed. The largest threat to the operating budget's remaining balanced is clearly the threat of another round of state revenue reductions. There are no indications from Sacramento as to what might happen to community colleges in 2010-11.

We do not expect to receive additional budget news until mid-May when the Governor and Department of Finance release the May revise.

The summary of the Tentative Budget will be submitted for Board review at the first meeting in June, with an anticipated approval of the detailed Tentative Budget at the second meeting in June."

Changes to 2010/11 Projections

| | December 2009 Projections | May 2010 Projections |
|--|---------------------------|----------------------|
| Revenue | 180,320,000 | 181,240,419 |
| Expenses | 184,480,000 | 182,194,235 |
| Net (Deficit) | (4,160,000) | (953,817) |
| Solutions Implemented or pending (escrow II and Deferment I) | | 3,018,225 |
| Net Balance / (Deficit) After Implementation of Solutions | | 2,064,409 |
| Potential State Cuts-(based on May revise) | | - |
| Total Net Balance/ (Potential Deficit) based on May revise estimates | | 2,064,409 |

5/21/10

FHDA Tentative Budget Assumptions:

- 1) statutory COLA -.39% backfilled
- 2) no growth built in even though governor proposed 2.2% growth system-wide for FY 10/11
- 3) 1% Deficit Factor

Tentative Budget for General Fund (Fund 14) 2010-11

| | Column 1 | Column 2 | Column 3 |
|---|----------------------------------|------------------------|--|
| | Adopted 09-10 to Tentative 10-11 | | |
| Revenue: | Adopted 09-10 | Tentative 10-11 | Variance |
| Federal | 1,480 | 1,480 | 0 |
| Base Revenue: | | | |
| State Apportionment | 153,861,708 | 154,778,200 | 916,492 |
| Equalization | | | |
| Prop 98 | | | |
| <u>Base Revenue</u> | <u>153,863,188</u> | <u>154,779,680</u> | <u>916,492</u> |
| PT Faculty Funding | 962,296 | 702,925 | (259,371) |
| PT Fac Off Hrs ad PT Fac Ben | 201,086 | 157,702 | (43,384) |
| Lottery | 4,037,789 | 4,003,737 | (34,052) |
| Non-resident Enrollment Fees | 18,139,095 | 18,139,095 | 0 |
| Campus Generated Income | 1,967,893 | 1,962,266 | (5,627) |
| Interest | 1,000,000 | 1,000,000 | 0 |
| 2% Resident Enrollment Fees | 335,014 | 335,014 | 0 |
| Other Revenue | 160,000 | 160,000 | 0 |
| <u>Sub Total- Other</u> | <u>26,803,172</u> | <u>26,460,738</u> | <u>(342,434)</u> |
| Total Revenue | 180,666,360 | 181,240,419 | 574,059 |
| Expenses: | | | |
| Salaries | 116,458,044 | 115,631,142 | (826,902) |
| Discretionary Benefits-Active Employees | 16,900,520 | 12,494,081 | (4,406,439) |
| Discretionary Benefits Retirees | 9,310,556 | 9,600,446 | 289,890 |
| Regulatory Benefits | 17,119,062 | 16,729,284 | (389,778) |
| Total Benefits: | 43,330,138 | 38,823,811 | (4,506,327) |
| Operating Expenses | 19,331,787 | 19,012,267 | (319,520) |
| Campuses B budget | 8,945,954 | 8,727,016 | (218,938) |
| Total Other Expenses: | 28,277,740 | 27,739,282 | (538,458) |
| Total Expenses: | 188,065,922 | 182,194,235 | (5,871,687) |
| Net Change in Fund Balance | (7,399,562) | (953,817) | 6,445,746 |
| Use of one-time carryover to fund filled positions designated to be eliminated 7/1/10 (Escrow I) | 3,593,721 | | (Includes suspension/elimination of vacant and filled positions, B budget reduction, positions funding redirects from General Fund to other funding sources) |
| Use of one-time carryover to fund filled positions designated to be eliminated 7/1/11 (Escrow II and Deferment I) | | 3,018,225 | (Includes suspension/elimination of vacant and filled positions, contract reduction, positions funding redirects from General Fund to other funding sources) |
| Net Change in Fund Balance after use of one-time carryover for Escrow I | (3,805,841) | | |
| Net Change in Fund Balance after use of one-time ending fund balance to fund Escrow II and Deferment I positions | | 2,064,409 | |
| Use of one-time Fund Balance from 08/09 | 3,805,841 | 0 | |
| Net Operating Gain/(Deficit) | 0 | 2,064,409 | |

Prepared 5/21/10

Tentative Budget for General Fund (Fund 14) 2010-11

Changes 09/10 Adopted to 10/11 Tentative Budget

Increases/(Decreases) in Revenue:

| | |
|---|----------------|
| Base Adjustment for exceeding 20K FTES @ DA | 553,591 |
| Workload reduction adjustment from 4% to 3.39% (reduced by projected deficit factor of 1%) | 362,901 |
| PT faculty compensation adjustment/cuts | (259,371) |
| PT Fac Off Hrs ad PT Fac Ben | (43,384) |
| Other | (39,679) |
| | <u>574,059</u> |

Increases/(Decreases) in Salaries:

| | |
|--|------------------|
| Net Salary decrease due to general Fund cuts but offset by 10/11 projected salary adjustments, steps & columns and transfers from Categorical programs, also includes Escrow II and deferment I positions. | (1,989,107) |
| SDL replacement costs increase | 13,165 |
| PDL- non-teaching costs decrease | (211,318) |
| Part -Time faculty cost increase due to workload/FTEF adjustment, salary schedule adjustment (1.5%) as well as step and column increases | 1,244,605 |
| Increase to Contingency accounts | 100,000 |
| Miscellaneous Increases/(decreases) (net) | 15,753 |
| | <u>(826,902)</u> |

Increases/(Decreases) in Benefits:

| | |
|---|--------------------|
| Regulated Benefits--decrease due to headcount/position reduction (net) | (389,778) |
| Discretionary Benefits net decrease due to projected decrease in PEPY rate (\$12.2K from \$14.6K budget to budget compare), reduced by projected savings due to vacancies (\$.3M) | (4,406,439) |
| Retiree benefits net increase due to a increase in PEPY rate (\$12.8K to \$12.86K budget to budget compare) and reduced projected headcount | 289,890 |
| | <u>(4,506,327)</u> |

Increases/(Decreases) in Operating Expenses:

| | |
|--|------------------|
| Leases | (69,540) |
| Utilities--reduction due to negotiated favorable rate | (753,561) |
| District-Wide Software/Maintenance | 315,070 |
| Transfers out to other Funds for leave replacements, etc. | 68,413 |
| Special Ed Transfer Out (decrease due to benefits rate adjustments, state cuts/headcount/position reduction resulting in lower match requirement | (418,131) |
| Insurance and Claims | (26,429) |
| Legal Services | 150,000 |
| Campuses B budget (net) includes B to A transfers due to reclassifications and other contract changes | (218,938) |
| Audit | 8,500 |
| Bank Charges | 180,000 |
| Contract Instruction (change in Job Corps Program offerings and shift of FTES to on-campus programs) | 0 |
| Election expense-additional expense budgeted for FY 10/11 to be expenses in FY 11/12 | 208,000 |
| Miscellaneous Increases/(decreases) (net) | 18,158 |
| | <u>(538,458)</u> |

| | |
|-------------|-------------------------|
| Net changes | <u><u>6,445,746</u></u> |
|-------------|-------------------------|

Prepared 5/21/10

FHDA Projected Reserves (est. 5/21/2010)

| | Fund 114 (General Fund) | Fund 600 (Internal Service/Benefits Fund) |
|--|----------------------------|--|
| Projected Ending Fund Balance 6/30/10 | 25,894,020 | 13,041,599 |
| Less: Restrictions to Ending Fund Balance | | |
| Reserve for Self Insured Fund | | 2,000,000 |
| Post 97 Health benefit Reserve (FA and ACE) | | 500,000 |
| Extended Sick Leave and Vacation Payout reserve | | 273,254 |
| Restricted Fund Balance (Colleges and Central Services) | 6,450,000 | |
| District-Wide restricted carryover | 1,692,000 | |
| 5% Reserves (restricted) | 10,290,000 | |
| Net Restrictions | 18,432,000 | 2,773,254 |
| Net Variance (Unrestricted Fund Balance) | 7,462,020 | 10,268,345 |
| Transfer to Stability Fund (to Fund 114) | | |
| Total Stability Fund | 7,462,020 | 10,268,345 |
| Less: 2010/11 Escrow II restricted Funds (FH and DA only) and Deferment I positions | 3,018,225 | (2,034,062) (est. only) |
| Less: Use of rate stabilization Fund for 10/11 benefit increases | | (2,034,062) (est. only) |
| Less:10/11 subsidy rolling forward | | (2,180,735) (est. only) |
| Less: Use of rate stabilization Fund for 11/12 benefit increases | | |
| Remaining Stability Fund | 4,443,795 | |
| Remaining Rate Stabilization Fund | | 4,019,486 |

Note: 1% variance on revenue and expense (\$360M) is \$3.6M

| | | | |
|---|-------------|----|--------------|
| Use of Medical Reserves: | | | |
| Total 10/11 Medical Benefit Costs (est. only) | 27,259,185 | | (est. only) |
| 11/12 increase | 2,180,735 | 8% | |
| Total 11/12 Medical Benefit Costs (est. only) | 29,439,920 | | |
| FY 10/11 District Budgeted | 25,225,123 | | |
| FY 10/11 Lockton Budgeted | 27,259,185 | | |
| Variance | (2,034,062) | | |