

## **Board of Trustees Agenda Item**

**Board Meeting Date:** 6/6/11

**Title of Item:** Update on 2011-12 Budget

### **Background and Analysis:**

Attached are a memo and a series of exhibits that will be discussed with the Board regarding development of the 2011-12 Tentative Budget. This is an information item only as the action to approve the Tentative Budget will take place at the June 20 Board meeting.

### **Recommendation:**

|                           |                               |
|---------------------------|-------------------------------|
| Submitted by:             | Kevin McElroy, Bernata Slater |
| Additional contact names: |                               |
| Is backup provided?       | Yes                           |

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To: Dr. Linda Thor and the Board of Trustees

From: Kevin McElroy

Date: June 6, 2011

Subject: 2011/12 Tentative Budget Review

As you are aware, the final budget picture is still fraught with significant ambiguity. But due to increased state income tax projections based upon the numbers presented in the May revise and the advice of the State Chancellor's Office, we have developed a new scenario for the district. This "middle ground" scenario reduces the projected state workload reduction to 8.7%, resulting in an operating deficit of approximately \$22.8 million. The first major assumption for reducing expenses was to proportionately reduce the part-time faculty budget by \$6.5 million to account for the reduced FTES funding (workload reduction) from the state. This will leave a necessary reduction to the expense budget of about \$16.2 million.

While this new "middle ground" scenario is relatively good news compared to the worst case scenario of a total projected cut to the district of \$30 million that we have been planning for since April, it will still equate to an overall cut to the district of approximately \$22.8 million and will still have very similar negative impacts on operations and programs. A 13.7% overall cut in FTES funding will necessitate a corresponding reduction in course offerings and staffing levels of faculty and all non-teaching staff.

So although we can be thankful that the governor recommended allocating some of the projected increase in state income tax to community colleges in the form of deferral buy downs, we are still facing very difficult downsizing. This assumes that the governor's proposed \$350 million of deferral backfill for community colleges is used to offset the additional cuts (estimated to be between \$500-550 million) that will be imposed if the tax extensions/increases are not passed by the legislature and approved by voters.

The tentative budget chart being presented at the June 6, 2011 meeting (attached) includes revenue projections adjusted for the May Revise. The projection also includes an update from our most recent scenarios that reflects the latest P-2 enrollment projections indicating that the resident FTES decline increased from 4% to 5% for the district. It also includes a 1% deficit factor that has been a consistent and necessary planning component in state funding the past several years. After allowing for the total 13.7% reduction in apportionment revenue, and even with the inclusion of a projected increase in non-resident income, the district will be starting the year with over \$19 million fewer revenue dollars compared to last year.

Turning to the expense side of the tentative budget, most other operating expense projections have been firmed up since the January scenario projections. Expenses have remained fairly stable from what was projected in January so there have been few adjustments in the tentative budget scenario provided. The most significant adjustments are in the part-time faculty expenses incorporating calculations for a revised workload reduction percentage estimate (approximately 13.7% versus 20%).

As the chart depicts in the “Net revenue over Expenses” line, we are estimating a net operating deficit (after subtracting \$6.5 million for part time faculty workload reduction) for the district in 2011/12 of \$16.2 million at current 2010/11 spending levels.

As we have reported to the Board in the last several budget updates, both colleges and Central Services are developing their individual plans to make the necessary cuts to balance to the reduced apportionment and workload allocations to be implemented as needed. The operating budget plan continues to depend on using our planned Stability Fund to balance the projected 2011/12 deficit until all required district budget cuts are implemented.

Based on the third quarter financial reports, we are now projecting our cumulative ending fund balance to be approximately \$34.7 million. However, as the chart depicts, after subtracting out the restricted fund balances and the designated fund balances, the net Stability Fund is approximately \$10.7 million. When compared to the projected deficit of \$16.2 million, we would have a shortfall of approximately \$5.5 million at current spending levels by the time we reached the end of 2011/12. Consequently, the colleges and Central Services have committed to adding a share of the projected \$9.5 million of Designated Fund Balance – “B” Budget Carryover to the available Stability Fund balance. In this scenario, the district will have the option of using available one-time funds to support operations and delay full implementation of the planned budget cuts through the end of 2011/12. This scenario also includes maintaining a \$3 million Stability Fund balance to carry into the 2012/13 fiscal year, as well as keeping our 5% reserves intact.

Through past good planning by this district, we are fortunate to have an identified Stability Fund along with our carryover reserves to help bridge the gap while developing and finalizing our long-term budget adjustments and cuts. But as noted earlier, this will still be a very difficult year of downsizing to parallel the workload reductions and corresponding revenue loss. And it is important to acknowledge that all of the assumptions included in the May Revise scenario can shift significantly as updated financial information comes out of Sacramento. If the state budget that is ultimately adopted is worse than the assumptions in our tentative budget, we will need to be prepared to begin implementing our budget cuts as early as January of 2012.

As far as when we can expect to finally receive a signed and adopted state budget, prognosticators in Sacramento, from the Chancellor’s office to the CCLC, are reporting the budget may get passed anytime from July 1st to late summer or early fall. There seems to be mounting pressure on the Legislature to get a spending plan to the governor by the June 15th deadline to ensure paychecks to legislators are not withheld as threatened by the state controller, if a budget is not signed into law on time. Additionally, some predict the Legislature is motivated to get the budget finalized before redistricting lines are decided later this summer.

So, though there is likely to be much movement in terms of final state budget numbers in the coming weeks and the district must continue to be prepared to adjust accordingly, we will bring the latest information and budget planning to the Board at the September meeting with a full report of the state budget status to be adopted and, if necessary, revised at a future meeting. And in the short term, we will be presenting the complete detailed version of the tentative budget, including all other district funds, to the Board at the June 20, 2011 meeting.

## Tentative Budget 2011/12

|   | <b>Scenario Based<br/>on May Revise</b> |
|---|---|
| <b>Revenue:</b>   |   |
| Apportionment (Base, lowered from 10/11 by 5% due to<br>loss of FTES) | 148,751,382                             |
| Workload reduction (est. 8.7%)  | <u>(13,019,312)</u>                     |
| Net Apportionment   | 135,732,070                             |
| Deficit Factor 1%   | <u>(1,357,321)</u>                      |
| Total Apportionment revenue:  | 134,374,749                             |
| Other   | <u>27,494,363</u>                       |
| <b>Total Revenue</b>  | <b><u>161,869,112</u></b>               |
| <b>Expenses:</b>  |   |
| Before Workload reduction   | <u>184,665,461</u>                      |
| <b>Total Expenses</b>   | <b><u>184,665,461</u></b>               |
| <b>Revenue over Expenses (Deficit)</b>                                | <b><u>(22,796,350)</u></b>              |
| <b>#1 Assumption for Expense Reduction:</b>                           |   |
| PT Faculty Workload reduction   | 6,518,049                               |
| <b>Net Revenue over Expenses (Deficit)</b>                            | <b>(16,278,301)</b>                     |

Tentative Budget for General Fund (Fund 114) 2011-12

|  | Column 1      | Column 2        | Column 3   | Notes      |
|--|---------------|-----------------|--|------------|
|  |               |                 | Adopted 10-11 to<br>Tentative 11-12  |            |
| Revenue:   | Adopted 10-11 | Tentative 11-12 | Variance   |            |
| Federal  | 1,480         | 1,480           | 0  |            |
| Base Revenue:  |               |                 |  |            |
| State Apportionment  | 154,778,225   | 134,374,749     | (20,403,476)   |            |
| Equalization<br>Prop 98  |               |                 |  |            |
| Base Revenue   | 154,779,705   | 134,376,229     | (20,403,476)   |            |
| PT Faculty Funding   | 702,925       | 702,925         | 0  |            |
| PT Fac Off Hrs ad PT Fac Ben   | 157,702       | 157,702         | 0  |            |
| Lottery  | 4,159,368     | 3,552,455       | (606,914)  |            |
| Non-resident Enrollment Fees   | 18,139,095    | 19,968,830      | 1,829,735  |            |
| Campus Generated Income  | 1,972,684     | 1,865,957       | (106,727)  |            |
| Interest   | 750,000       | 750,000         | 0  |            |
| 2% Resident Enrollment Fees  | 335,014       | 335,014         | 0  |            |
| Other Revenue  | 160,000       | 160,000         | 0  |            |
| Sub Total- Other   | 26,376,788    | 27,492,883      | 1,116,095  |            |
| Total Revenue  | 181,156,493   | 161,869,112     | (19,287,381)   |            |
| Expenses:  |               |                 |  |            |
| Salaries   | 116,517,584   | 111,054,056     | (5,463,528)  |            |
| Discretionary Benefits-Active Employees  | 12,512,348    | 12,517,908      | 5,560  |            |
| Discretionary Benefits Retirees  | 9,600,446     | 9,954,366       | 353,921  |            |
| Regulatory Benefits  | 17,071,742    | 17,506,507      | 434,765  |            |
| Total Benefits:  | 39,184,536    | 39,978,782      | 794,246  |            |
| Operating Expenses   | 17,833,898    | 18,083,868      | 249,970  |            |
| Campuses B budget  | 8,737,434     | 9,030,707       | 293,273  |            |
| Total Other Expenses:  | 26,571,332    | 27,114,575      | 543,243  |            |
| Total Expenses:  | 182,273,451   | 178,147,413     | (4,126,039)  |            |
| Net Change in Fund Balance   | (1,116,958)   | (16,278,301)    | (15,161,343)   | (a)        |
| Ending Fund Balance (all estimates<br>based on 3rd Qtr Report. 3/30/11)                            |               | 34,741,551      |  |            |
| Less:  |               |                 |  |            |
| Restricted Fund Balance:   |               |                 |  |            |
| 5% Reserves  |               | (9,460,000)     |  |            |
| 2012/13 Stability Fund   |               | (3,000,000)     |  |            |
| Additional Banner Backfill   |               | (573,062)       |  |            |
| District Wide Restricted Carryover   |               | (1,430,000)     |  |            |
| Total Restricted Carryover   |               | (14,463,062)    |  |            |
| Net Unrestricted Fund Balance:   |               | 20,278,489      |  |            |
| Less:  |               |                 |  |            |
| Designated Fund Balance:   |               |                 |  |            |
| FH B Budget carryover  |               | (4,150,000)     |  |            |
| DA B Budget carryover  |               | (3,700,000)     |  |            |
| CS B Budget carryover  |               | (1,700,000)     |  |            |
| Total Designated Carryover   |               | (9,550,000)     |  | see Note 1 |
| Net Stability Fund   |               | 10,728,489      | Available to close operating<br>deficit for 11/12 on one-<br>time basis only   | (b)        |
| Net Deficit After use of Available Stability Fund  |               | (5,549,812)     |  | (a-b)      |
| Other resources that will be made available<br>as needed to close operating deficit in FY<br>11/12 |               | 5,549,812       | Colleges and Central<br>Services are recommending<br>to the Board to postpone<br>cuts to positions and<br>discretionary budget in FY<br>11/12 with the use of their<br>one-time B budget<br>carryover (current estim.<br>\$9.5M) | Note 1     |
| Operating Deficit/Gain FY 2011/12 after use of one-time funds                                      |               | 0               |  |            |

Tentative Budget for General Fund (Fund 114) 2011-12

Changes 10/11 Adopted to 11/12 Tentative Budget

|   |                     |
|---|---------------------|
| <b>Increases/(Decreases) in Revenue:</b>  |                     |
| Base Rate Adjustment for FY 09/10 and 10/11 from \$4,595 to \$4,585 per FTES  | (290,000)           |
| Loss of district revenue/workload reduction due to loss of FTES in 10/11 (5% est based on P-2)  | (7,265,243)         |
| Projected state workload reduction for 11/12 based on May Revise (est. 8.7%)  | (13,019,313)        |
| Reduction in state lottery funding due to projected lower FTES in FY 11/12  | (606,914)           |
| Increase in non-resident revenue due to fee increase (from \$131 in FY 10/11 to \$135 in FY 11/12 as well as increased enrollment in FY 10/11 (11/12 enrollment projected flat) | 1,829,735           |
| Reduction in projected revenue for campuses' generated income (net)   | (106,727)           |
| Decrease in deficit factor between FY 10/11 and FY 11/12 (from est. \$ 1.5M in 10/11 to est. \$1.3M in FY 11/12)  | 171,079             |
| <b>Net changes to Revenue:</b>  | <b>(19,287,382)</b> |

Increases/(Decreases) in Salaries:

|  |             |
|--|-------------|
| Net Salary increase due to projected salary adjustments, steps & columns   | 724,283     |
| PDL replacement costs increase   | 193,829     |
| SDL replacement costs increase   | 112,816     |
| Part -Time faculty cost decrease (net) due to workload/FTEF adjustment (total reduction est. 13.8% which includes decline in FTES from 10/11 of 5% and projected state imposed workload reduction for 11/12 of 8.7%) | (6,223,134) |
| Decrease to Contingency accounts   | (177,526)   |
| Miscellaneous Increases/(decreases) (net)  | (93,796)    |
|  | (5,463,528) |

Increases/(Decreases ) in Benefits:

|  |         |
|--|---------|
| Regulatory Benefits--increase due to PERS rate increase ( 10.7% to 11.8%) Note: this rate will be adjusted down to 10.93% at Adopted Budget as final rate was approved by CALPERS after positions were loaded into our Accounting System for Tentative Budget) | 434,765 |
| Discretionary Benefits-Retirees net increase due to projected higher headcount   | 353,921 |
| Discretionary Benefits-Active Employees-- net adjustment due to cost increase  | 5,560   |
|  | 794,246 |

Increases/(Decreases) in Operating/Other Expenses:

|   |           |
|---|-----------|
| Leases  | 3,130     |
| Utilities--reduction due to negotiated favorable rate   | (110,000) |
| District-Wide Software/Maintenance  | 164,843   |
| Transfers out to other Funds for leave replacements, etc.   | 200,919   |
| Special Ed Transfer Out (increase due to salary adjustments and state revenue reduction resulting in higher match requirement   | 107,286   |
| Insurance and Claims  | 8,937     |
| Legal Services  | 150,000   |
| Campuses B budget (net) includes increase to International Recruitment Program due to increased FTES enrollment in FY 10/11   | 400,000   |
| Audit   | (74,000)  |
| Bank Charges  | (20,000)  |
| Contribution to Unfunded Retiree Liability  | (150,000) |
| Election expense-reduction for 11/12 due to change in election schedule from odd to even years. Portion of funds is carried over for the next election in FY 12/13 as well as one-time transition cost in FY 11/12. | (208,000) |
| Miscellaneous Increases/(decreases) (net)   | 70,128    |
|   | 543,243   |

|                                |                  |
|--------------------------------|------------------|
| <b>Net changes to Expenses</b> | <b>4,126,039</b> |
|--------------------------------|------------------|