

## **Board of Trustees Agenda Item**

**Board Meeting Date: August 29, 2011**

**Title of Item:** Public Hearing on 2011-12 Budget

### **Background and Analysis:**

In accordance with Title 5 Section 58301, the governing board is required to hold a public hearing on the adoption of the 2011-12 proposed budget of the District for the year ending June 30, 2012. The Board will be asked to officially adopt the budget at its meeting on September 12, 2011.

The proposed budget, in its entirety, can be viewed at: <http://business.fhda.edu/budget/annual>

**Recommendation:** Information Only

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Is backup provided?	Yes



To: Dr. Linda Thor and the Board of Trustees

From: Kevin McElroy, Vice Chancellor of Business Services

Date: August 29, 2011

Subject: 2011/12 Adopted Budget Review

The 2011/12 Adopted Budget, which includes appendices of various analyses and exhibits to help explain the budget and key trend data, is presented to the Board of Trustees for consideration.

### **Overview**

There have been measurable changes to the statewide – and to Foothill-De Anza’s – fiscal landscape since we presented the “middle ground” budget scenario in the tentative budget to the Board on June 20, 2011. In that scenario, the projected 8.7% state workload reduction translated to an approximate overall operating deficit to Foothill-De Anza of \$22.8 million (this reduction in “workload” would trigger \$6.5 million in part-time faculty expenditure reductions and necessitate an additional \$16.2 million in cuts to come from other operating expenses). This projected operating deficit for 2011/12 assumed that the colleges would not be able to restore the 5% decline in FTES projected for the 2010/11 fiscal year, a decline that was unique to Foothill-De Anza.

Based on the approved 2011/12 state budget, our adopted budget reflects a reduction in our net operating deficit from \$16 million to \$7.6 million. This variance is composed of two main components. The first comes from modifying our FTES in the 2011/12 fiscal year that assumes we will recover the reported 4.5% FTES drop. Based on the FTES achieved and reported in the final attendance report and the 6.2% workload reduction imposed by the state for 2011/12, we are projecting that the colleges will restore the 4.5% FTES lost in fiscal year 10/11. This would reduce the operating deficit by \$4 million after accounting for the necessary part-time faculty costs. The second component is an improvement in revenues of approximately \$4 million due to an adjustment to workload reduction from 8.7%, as proposed in the tentative budget, to 6.2% that was included in the final state budget.

In short, the district will need to develop its plan to close an approximate \$7.6 million structural deficit to our operating budget for 2011/12. As noted in the tentative budget, we will be able to

delay full implementation of the \$7.6 million worth of cuts in 2011/12 through the use of the stabilization fund balance. The stabilization fund balance has increased since the third quarter report from \$13.8 million to \$18.9 million. This was primarily due to savings in the part-time faculty accounts from serving fewer students as a result of the 4.5% drop in FTES, a reduction in the deficit factor applied by the state, increased non-resident income, savings in workers' comp insurance costs, and lower costs for regulatory benefits due to position vacancies held throughout the district. Due to prudent management of all expenses throughout the district, the carryover accounts for both colleges and Central Services have also increased from a projected total at Tentative Budget of approximately \$9.5 million to \$12.7 million. Additionally, we have recommended that the 2012/13 Stability Fund be increased from \$3 million to \$4 million given our increased overall fund balances and the expectation that 2012/13 will undoubtedly require additional budget cuts.

It is important to note that these significant fund balances are one-time dollars and were significantly increased through the receipt of state SB 361 stabilization funding, i.e. we were paid for 4.5% more FTES than we actually produced for 2010/11 per the state formula. We will need to produce approximately the same number of FTES in 2011/12 that was actually produced in 2010/11 to avoid a further erosion – beyond the state imposed 6.2% workload reduction – of our apportionment revenue. The colleges are reasonably confident that demand will allow us to produce at least as many FTES in 2011/12 as was produced last year.

## **Revenue**

Our revenue assumptions reflect the above plan of producing roughly the same number of FTES in 2011/12 as in the prior fiscal year. Consequently, our projected revenue from the tentative budget to the adopted budget has increased by approximately \$12 million. Most of the remaining income factors from Tentative Budget have stayed fairly constant with the exception of the increase in general apportionment due to a smaller workload reduction and a slight increase in non-resident tuition income. Interest income has been reduced by \$250,000 due to the additional deferral of apportionment payments included in the governor's budget.

## **Expenses**

A review of the expense side of the 2011/12 budget reveals that projected expenses from the tentative budget to the adopted budget have largely stayed the same but with a \$3 million increase in total salaries and wages, which is primarily due to increased costs for part-time faculty to meet our FTES restoration goals. The cost for health benefits in 2010/11 was nearly right on target, within \$100,000 of the approximate \$25 million budgeted. This year, as in the prior year, our medical benefit rates have been set based on a negotiated composite Per Employee Per Month (PEPM) rate of \$976 for medical, prescription, dental and vision for both active employees and retirees. ***Our insurance brokers are projecting that our medical benefit costs for fiscal year 2011/12 may exceed our operating budget by approximately \$2.8 million due to medical cost increases in fiscal year 2011/12. If these estimates materialize, we will need to use \$2.8 million of our Rate Stabilization Fund balance (currently \$10.2 million) to offset these increases.***

## **Risk Factors**

As outlined in the tentative budget, the adopted budget will continue to rely on the \$15 million stability fund set aside for 2011/12 to close the approximate \$7.6 million structural gap between anticipated revenue allocations and projected expenditures. However, there are several ***risk factors*** that may have a profound impact on projected revenue assumptions and therefore significantly further deplete our stability fund during the course of the 2011/12 fiscal year.

First, due to the governor's "trigger" component in the approved state budget, which requires additional budget cuts to the community college system funding if projected state revenues fall short, we are at risk for additional mid-year cuts of as much as \$3.5 million. And given recent persistent reports of the economy continuing to lag, some degree of mid-year cuts seems inevitable. ***As of this writing, we have received an advisory from the California Community College League to prepare for additional cuts of 2.3%, or roughly \$3.5 million, for Foothill-De Anza.*** These cuts would translate into ongoing cuts for fiscal year 2012/13 but would be funded on a one-time basis in fiscal year 2011/12 from our remaining stability fund dollars.

Second, as previously noted, the adopted budget is built on the assumption that our FTES will remain almost constant with our 10/11 numbers. Any number of FTES produced below our target will result in a reduction in funding of up to approximately \$4 million. We no longer have the state SB 361 stabilization "safety net" to maintain base funding, so fewer FTES would result in an immediate corresponding reduction in revenue during the 2011/12 fiscal year. Related to this FTES revenue-monitoring concern is the state mandated student fee increase of \$7 per quarter unit due to be implemented in fall quarter 2011. Because student fee increases have traditionally negatively impacted enrollments, at least initially, this could also be a factor for unanticipated reduced revenue if it contributes to Foothill-De Anza falling below its FTES base. It is important to note that a loss of 100 FTES results in a corresponding loss of approximately \$450,000 from our 2011/12 revenue.

And finally, the deficit factor applied to state apportionment funding (traditionally 1% or more) will continue to be an unpredictable variable given the unstable state property tax income revenues and the possibility of student fee income falling below state estimates.

## **Summary**

Foothill De-Anza continues to face a daunting \$7.6 to \$11 million budget deficit and at least a 6.2% workload reduction, a scenario that is slightly better than that presented at Tentative Budget. Fortunately, we have a \$15 million stability fund to draw upon to get us through the 2011/12 year without being forced to immediately implement all the required budget cuts, and we are developing plans to balance the budget to the reduced state funding on a permanent basis. The colleges and Central Services will develop their plans to implement the permanent cuts to close the structural deficit during the fall quarter and will be ready to implement the plans as necessary when stability funds are no longer sufficient to close the budget shortfall. The budget reduction implementation is planned for no sooner than July 1, 2012 and possibly later depending on state financial events over the 2011/12 fiscal year. The colleges and Central

Services also have a total of approximately \$12 million in carryover funds to help bridge the gap over the next one-to-two years to maintain minimal operations and services at the campuses.

In light of the aforementioned risk factors, the ongoing ambiguity of state revenue projections, the fact that the state will still be facing a structural budget deficit in 2012/13, and Foothill-De Anza will be faced with a minimum operating deficit in fiscal year 2012/13 of approximately \$10-11 million after accounting for workload reduction, continued fiscal prudence within the district and plans for even fewer resources being allocated from the state will be “the order of the day” as we move into the 2011/12 academic year.