

## **Board of Trustees Agenda Item**

**Board Meeting Date: 1/23/12**

**Title of Item:** Budget Update

### **Background and Analysis:**

On January 5, 2012 Governor Brown released his budget proposal for FY 2012/13. Information and analysis provided by the State Chancellor's office and the Community College League of California (CCLC) since the release of the Governor's provided further information on the impact of the governor's proposed budget on community colleges. Below is a summary of proposed changes and analysis of how they may impact our district.

The statewide structural deficit for next year is projected to be approximately \$9.2 billion. The economic recovery within the state continues, but at a very slow pace. The Governor's plan to balance the budget relies on a combination of more severe budget cuts to human and health services and the correctional system and passage of a tax ballot measure in November. The total package is split relatively evenly between additional budget cuts and new tax revenue. But the Governor's plan is again including midyear cuts if voters do not approve the tax package in November with the majority of the cuts impacting education. Given the uncertain outcome of the election, we have been advised to budget conservatively as we are in for another rough year of budget planning.

Funding for the community college system will remain relatively flat from the prior year only if the tax increase passes. If it is rejected, mid- year cuts will total approximately \$482.6 million and will be enacted January 1, 2013. The first \$218.3 million cut will be the loss of apportionment deferral buy-back, and its impact will be a continuation of apportionment deferrals which will reduce our interest earnings. The remaining \$264 million will be a direct reduction to the funding for next year.

The CCLC has posted their "District Budget Impact" analysis page on their website which estimates the cut for our district to be approximately \$7.1 million. *(This amount will be recalculated in the near future as final FY 10-11 numbers are adjusted for the whole system)* This translates to an approximate 5.56% cut in overall funding. In this scenario, the state chancellor's office is presuming, and will strongly advocate for, a corresponding workload reduction. We have prepared preliminary estimates of the 5.56% workload reduction which we will share with the Board of Trustees during the January 23 study session. Our preliminary estimates indicate that under this scenario our deficit would increase from \$9.7 million in FY 11/12 to \$16.0 million in FY 12/13 when combined with estimated operating cost increases.

As mentioned above, both the Chancellor's office and the CCLC urged districts to budget very cautiously due to the uncertainty of the tax measure reaching the ballot, much less being approved by voters. Additionally, even if the tax increase is approved, the state Legislative Analyst's Office (LAO) has stated the Governor's estimate of \$6.9 billion in new revenue is overly optimistic by \$2.1 billion. Although unconfirmed, this would likely mean mid-year cuts even with approval of new taxes.

There will undoubtedly be much advocacy from all of the stakeholders for modification of the Governor's proposed budget between now and the June deadline for the Legislature to approve the budget. The CCLC believes nothing "real" will be decided in budget negotiations before June when the primaries take place and determine redistricting.

Additional concern was voiced regarding the format the Governor's budget is being presented to the voters. As presented, the tax plan will generate \$6.9 billion targeted for education. But closer analysis reveals only \$2.5 billion in new dollars will fund education, and through a complicated process that impacts Prop 98, \$4.4 billion will be directed to the general fund. Conversely, if the tax initiative fails, education will be cut by \$4.8 billion (\$2.3 billion more than education stands to gain).

In summary, in spite of the politics surrounding the new tax package and the impassioned advocacy efforts that will take place in the coming months, approval of a state budget strategy that avoids additional cuts to education is critical. Going forward it will be prudent for our district to develop its budget plans that prepare it for the two scenarios we know now; flat funding for next year or a budget that incurs over \$7 million in mid-year cuts. Both the Chancellor's office and the CCLC strongly caution against building a budget reliant on money we don't know for sure we will receive.

We will present an overview of the scenarios at the January 23, 2012 Board study session. Please let me know if you have any questions or require additional information.

**Recommendation:** Information only

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Is backup provided?	No