

## **Board of Trustees Agenda Item**

**Board Meeting Date:** June 4, 2012

**Title of Item:** Update on 2012-13 Budget

### **Background and Analysis:**

Development of the 2012-13 Tentative Budget will be discussed with the Board. This is an information item; the Tentative Budget will be presented at the June 18 board meeting.

**Recommendation:** Information Only

Submitted by:	Kevin McElroy, Vice Chancellor of Business Services
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Is backup provided?	No

To: Dr. Linda Thor and the Board of Trustees

From: Kevin McElroy

Date: June 4, 2012

Subject: 2012/13 Tentative Budget Review

This memo is to comment on the implications of the Governor's May Revise released last month and provide preliminary review of 2012/13 Tentative Budget plans.

### **State Budget Overview**

From a broad perspective, California faces yet another year of deep cuts in services and uncertain revenue assumptions. As we have been reporting since January, due to the uncertainty for passage of the Governor's proposed tax package, the community college (CC) system is faced with a "best case" and "worst case" scenario for funding in the new budget year. The governor's proposed May revision to his January budget treats community colleges largely the same but projects a slightly worse "worst case" scenario due to revenue projections being modified downward. In January the "worst case" scenario resulted in an estimated 5.56% apportionment reduction proposed to be implemented as yet another work load reduction (WLR) to all districts (predicated on voter failure to pass the tax package). The May revise estimates the WLR will increase to 6.2% if the tax package fails. This represents a \$287 million cut to community college funding for 2012-13.

If voters approve the tax package, the CC system will not receive any new funding for programs or services, but will not be forced to absorb the \$287 million in cuts required in the "worst case" scenario. Additional revenue from the new taxes of \$313 million would be applied to the community college funding formula to partially restore timely payments of apportionment funding.

### **Risk Factors**

In either scenario, the most ominous component of the proposed budget is the number of risk factors identified that could make either of the two scenarios significantly worse for community college funding. In addition to the uncertainty of the governor's tax package passing in November, another tax increase package will be on the ballot that will be in direct competition with the governor's package. This competing tax package, financed and supported by a private backer, Molly Munger is designed to assist only the K-12 system in the state and does not provide any benefits for community colleges. If it receives more votes than the governor's package, then the governor's package will fail and community colleges will be facing the \$287 million cut "worst case" scenario. Or, neither package could receive a majority vote (effectively cancelling each other out) and community colleges will again be facing the "worst case" scenario.

In addition to the tax package risk factor, several other revenue assumptions in the governor's budget are very tenuous and represent additional risk factors;

- Loss of student fee income due to additional BOG fee waivers granted in response to the student fee increase (\$24 to \$31 per quarter unit)
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- Redirected redevelopment agency (RDA) dollars lower than projected
- General property tax revenues failing to meet projections as they have for the past several years

### **Impact on Foothill-De Anza**

Each of these revenue risks will most certainly result in additional mid-year funding cuts to our budgets in the form of a deficit factor. For our district, an increase in the WLR from 5.56% to 6.2% equates to an additional cut of approximately \$1 million, a further reduction to apportionment funding from the earlier estimated \$7.3M to \$8.4M. This additional decrease in revenue has been incorporated in the "best case" and "worst case" scenarios specifically impacting Foothill-De Anza and will be referenced in the financial tables included in the Tentative Budget presentation.

After adjustment for governor's May Revise proposal of 6.2% workload reduction and finalizing all preliminary budget estimates, the Foothill-De Anza structural deficit for 2012-13 is projected to be **\$11.8 million in the "best case"** scenario and approximately **\$17.1 million in the "worst case"** scenario. Since both of these projected deficits are net of the WLR, meaning the part-time instructional cost reductions have already been subtracted, the remaining cuts will need to primarily come from the non-instructional part of the budget and full time faculty positions.

The projected deficit for either scenario includes lost apportionment income (approximately \$4.5 million) due to the additional enrollment decline we experienced in 2011-12. (Approximately 900 FTES below our funded restoration base.)

### **Budget Strategy for 2012-13**

The colleges and Central Services have developed plans to cut approximately \$3.6 million dollars from the budget at the beginning of the new fiscal year. The remaining deficit to be solved in either scenario will be **\$8.2 million** and **\$13.5 million** respectively.

Our recommended strategy going forward into 2012-13 is two pronged; use remaining Stability Fund dollars and district carry over dollars to close a portion of the deficit through the first few months of the fiscal year, enabling us to defer implementing the full measure of planned budget cuts (including painful position reductions/lay-offs) **and** complete district wide budget cut plans for implementation by early Fall of 2012. The exact timing of when we will need to implement the permanent budget cuts will be contingent upon our final ending fund balance for 2011-12 and the final magnitude of state budget cuts including outcome of the tax package vote in November.

### **Allocation Plans for Stability Fund, Carry-Over Dollars**

Planned use for our remaining 2011-12 Stability Fund and available carry over dollars also includes maintaining a \$3 million Stability Fund in 2013-14 and designating approximately \$2 million to our part time faculty budget to fund FTES restoration efforts in the new year. The recommendation to maintain a \$3 million Stability Fund in 2012-13 is prudent given the volatility of the state budget and the rash of mid year cuts districts have endured the past several years. The \$2 million set aside to supplement the 2012-13 part-time faculty budget is an estimate of what might be needed to restore FTES lost in the last two years or provide protection from lower than budgeted productivity should we experience a decline due to the student fee increase. A final recommended allocation would be further refined by August when we know our final FTES productivity for 2011-12.

### **Final Notes**

Making the necessary cuts to align expenses with reduced revenue will have severe negative impacts on service to students, number of class sections that can be offered, part-time faculty numbers, and all full-time employees. Many services currently provided to students will be eliminated and both college and district operations will be reduced to minimally tolerable operational levels. Based on the currently projected best and worst-case deficit scenarios, the district will be facing a reduction of between approximately 95 and 160 positions, both teaching and non-teaching.

The projected district deficits are estimated using the data available from the state at this juncture and district financial reports as of the third quarter 2011-12. The final deficit calculations and ending balances for the district will change slightly as additional information becomes available between now and September 2012, when the Board is asked to adopt the final budget for 2012-13. We will keep the Board updated on any new developments related to our budget process.

Between now and September the colleges and Central services will continue to develop and refine our budget cut plans for the worst case scenario, as recommended by the system office, to ensure that we are in a position to implement the budget cuts as needed, depending on the final outcome of the state budget.

We will bring the detailed Tentative Budget to the Board of Trustees for approval at the second meeting in June.