

## **Audit and Finance Agenda Item**

**Meeting Date:** March 3, 2011

**Title of Item:**

Budget Update and Review

**Background and Analysis:**

On January 31, 2011 Vice Chancellor Kevin McElroy provided a report to the Board of Trustees at their Budget Workshop meeting outlining the impacts to FHDA of the Governor's proposed budget for 2011-12. A written summary of the report and the associated "Scenario" spreadsheet are included in the packet.

In short, the report focused on the various scenarios of funding for the community college system in 2011-12 and specifically for FHDA contingent upon passage of the temporary tax extension slated for June 2011 and specific implementation actions for cost saving measures recommended in the governor's budget. Although the community college system has acknowledged that it we be unavoidable for us to take our "fair share" of the cuts needed by the state to balance the budget, there are several items in the governor's proposal that could be modified to minimize the impact on students from the cuts while still meeting the necessary cost savings required by the state.

Vice chancellor McElroy will provide a short overview of the report provided to the Board on January 31st and update the committee on the latest developments in the state budget development process.

**Recommendation:** Information

Submitted by: <b>Kevin McElroy, Bernata Slater</b>
Is backup provided?: <b>yes</b>

FHDA BOARD OF TRUSTEES WORKSHOP  
JANUARY 31, 2011  
TOYON ROOM, FOOTHILL COLLEGE  
BUDGET UPDATE

GOVERNOR'S 2011/12 BUDGET

On January 10, 2011 Governor Brown released his budget proposal for FY 2011/12. The governor's January budget proposal includes a balanced approach to close the current budget deficit of \$26.4 billion by combining spending cuts with extensions of revenue. The primary components of the budget proposes:

- reducing spending by \$12.5 billion
- increasing revenue \$12 billion by extending current temporary tax rate increases another five years.

Both aspects of the Budget plan have a profound impact on the Community College system funding as proposed. Reducing state spending by \$12.5 billion means the Community College system will have to endure its share of cuts and if the temporary tax extension is not extended our proportionate share of the cuts could as much as double.

OVERVIEW OF THE COMMUNITY COLLEGE BUDGET FOR 2011-12

The budget proposes the following key components:

FY 2010/11

- No mid-year cuts for 2010-11.

FY 2011/12

- \$400 million cut for "Apportionment Reductions and Reforms. (7% funding reduction) This plan includes a minimally defined "reform to census accounting practices" that would change apportionment funding.
- Student enrollment fee increase from \$26 to \$36 per credit unit. (\$7 per quarter unit)
- Enrollment growth of 1.9 percent.
- Additional \$129 million inter-year funding deferral.
- No further cuts to categorical programs (already decimated in prior year cuts).

Although it is painfully obvious that given the dire fiscal outlook of the state's budget, community colleges will need to absorb their fair share of the proposed cuts,

the advocacy efforts are now focused on mitigating the impact of these cuts on the system.

Mitigating proposals to the budget cuts include but are not limited to the following:

- Workload reduction must be a component of the over all budget cut.
- Maintain current census accounting practices.
- Revenue from the increase in student enrollment fee should be used to buy down the \$400 million cut instead of providing 1.9% of enrollment growth

## IMPACT OF GOVERNOR'S PROPOSED BUDGET ON FOOTHILL-DE ANZA

The accompanying "Scenarios Summary" provides an overview of how the proposed Community College budget cuts may specifically impact the FHDA district. The budget cut **targets** used in the scenarios are derived from the Community College League website, "District Budget Impact" (included in packet) which provides budget cuts by district. Although several scenarios could be developed, only three scenarios are included on this summary to focus the discussion on the most probable outcomes. The Summary page also summarizes our available one-time resources available to offset on one-time basis, some of the state cuts.

The "Status Quo" column of the "Scenarios Summary" does not reflect state cuts but merely reflects how much the district must reduce their expenses to achieve a balanced budget (before state cuts) due to currently projected 2010-11 enrollments loss and normal operational expense increases. Possible state cuts range from \$11 to \$25 million. The Scenario Summary spreadsheet depicts what we anticipate to be three of the most likely scenarios that may develop by the time a final state budget is passed this summer. The \$8, \$14, and \$17 million dollar scenarios reflect selection of possible outcomes from the first two options of the CC League's District Budget Impact sheet (scenarios 1, 2A and 2B).

Detailed back-up of the Scenario Summary spreadsheet is included in your packet for reference. We will discuss the various scenarios with the Board of Trustees during our January 31 workshop and address any questions or concerns that may be raised at that time.

In the coming months, working through our shared governance process, we are going to focus efforts on strategies that will bring our budget into balance during FY 2011/12 and we will keep the Board informed of important developments affecting our revenue projections, expenses and reserves as the year progresses.



# BUDGET ADVOCACY ACTION CENTER

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## District Budget Impact

Foothill-DeAnza

### Foothill-DeAnza

#### Assuming June Tax Package is Approved

Source	Amount
State General Fund:	-\$10,926,000
Increased Student Fees:	\$3,005,000
Net Reduction:	-\$7,922,000
Lost Students:	<ul style="list-style-type: none"> <li>• DeAnza: 2,384</li> <li>• Foothill: 2,017</li> </ul>

#### If June Tax Package Fails and Prop. 98 is Funded at Minimum

Source	Amount
State General Fund:	-\$16,936,000
Increased Student Fees:	\$3,005,000
Net Reduction:	-\$13,931,000
Lost Students:	<ul style="list-style-type: none"> <li>• DeAnza: 4,193</li> <li>• Foothill: 3,546</li> </ul>

#### If June Tax Package Fails and Prop. 98 is Suspended

Source	Amount
State General Fund:	-\$24,584,000
Increased Student Fees:	\$3,005,000

## If June Tax Package Fails and Prop. 98 is Suspended

Net Reduction: -\$21,580,000

Lost Students:

- DeAnza: 6,485
- Foothill: 5,485

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### Notes and Assumptions

- Each district's impact is calculated using Recalculation information from 2009-10.
- For the scenario "Assuming Governor's Budget is Approved," the projected cut is the district's proportionate share of a \$400 million reduction, with a net reduction calculated based on the district's proportionate share of \$110 million in statewide fee revenue.
- For the scenario "If June Tax Package Fails--Prop. 98 Funded at Minimum," the projected cut is the district's proportionate share of a \$620 million reduction, with a net reduction calculated based on the district's proportionate share of \$110 million in statewide fee revenue. The \$620 million assumes California Community Colleges Receive 11% of a Proposition 98 funding level \$2 billion below (\$47.3b) the governor's January 10 budget (\$49.3b).
- For the scenario "If June Tax Package--Prop. 98 Suspended," the projected cut is the district's proportionate share of a \$899 million reduction, which is apports 4.2% of the additional \$12 billion in cuts necessary to balance the budget, with a net reduction calculated based on the district's proportionate share of \$110 million in statewide fee revenue.
- In all cases, the student enrollment reduction assumes each college's share of the net funding cut on an average statewide weighted funding rate of credit, noncredit and noncredit-CDCP FTES.



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LAO: Community colleges treated unfairly in Prop. 98. Leg should consider distributing reductions differently. <http://bit.ly/f8MXPf>

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Our comments on #cabudget - <http://www.ccleague.net/...>

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Community college #cabudget update: <http://www.ccleague.net/...>

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## Scenarios Summary

**Notes: Total range of state cuts: \$11M to \$25M**

**Presented below are most likely scenarios (state cuts \$8M, \$14 M or \$17M)**

Fiscal Year:	10/11	11/12 Status Quo	11/12 Scenario 1	11/12 Scenario 2A	11/12 Scenario 2B
State cut			\$8M	\$14M	\$17M
Assumptions:		base reduced due to FTES loss in 10/11, increase in operating expenses	6% workload reduction, increase in operating expenses, assuming June tax package is approved, student fee increase offsets state cuts	10% workload reduction, assuming June tax package fails, Prop 98 at minimum, student fee increase offsets state cuts, increase in operating expense	12% workload reduction, assuming June tax package fails, <u>student fee increase does not offset cuts</u> , Prop 98 at minimum, increase in operating expense
Revenue	181,156,493	176,751,387	168,727,979	162,642,059	159,598,593
Expenses	182,273,451	181,884,824	179,251,071	177,253,315	176,254,271
Net:	(1,116,958)	(5,133,437)	(10,523,092)	(14,611,256)	(16,655,678)

**Major Variables that may increase/decrease projections:**

	10/11	11/12 Status Quo	11/12 Scenario 1	11/12 Scenario 2A	11/12 Scenario 3
reduction in deficit factor	1,563,416	1,503,900	1,424,793	1,364,788	1,334,781
Non-resident tuition--enrollment uncertainty (\$18M-19M Budget)	?	?	?	?	?
restoration of FTES lost in 10/11 (net of PT Faculty expenses)		3,376,901	3,376,901	3,376,901	3,376,901
Productivity increase or decrease	?	?	?	?	?
Impact of Enrollment Fee increase on FTES		?	?	?	?

**Projected Available Resources to close deficit in FY 11/12 (est. as of 9/30/10):**

Stability Fund:	10,347,031	
Colleges/CS Carryover	6,388,878	(half of 10/11 carryover)
	<u>\$ 16,735,909</u>	

Multi-Year projections (Update as of 1/24/11)

				Scenario 1 -Status Quo Base reduced due to FTES lost in 10/11			Scenario 1 Workload Reduction 6% (\$7.9M equiv) Assuming June Tax Package is Approved Student Fee increase offset total cuts			Scenario 2A Workload Reduction 10% (\$14M equiv) Assuming June Tax Package Fails Student Fee increase offset total cuts Prop 98 at minimum			Scenario 2B Workload Reduction 12% (\$17M equiv) Assuming June Tax Package Fails Prop 98 at minimum		
Description:	10/11	Descr	%	11/12	Descr	%	11/12	Descr	%	11/12	Descr	%	11/12	Descr	%
Revenue															
Apportionment	156,341,642	COLA	0.00%	150,390,007	COLA	0.00%	142,479,279	COLA	0.00%	136,478,829	COLA	0.00%	133,478,104	COLA	0.00%
	0	Growth	0.00%	0	Growth	0.00%	0	Growth	0.00%	0	Growth	0.00%	0	Growth	0.00%
		Base FTES	32,094		Base FTES	30,792		Base FTES	29,064		Base FTES	29,064		Base FTES	30,792
		addtl FTES	0		addtl FTES	0		addtl FTES	0		addtl FTES	0		addtl FTES	0
		Cr Rate FT	4,585		Cr Rate FTES	4,585		Cr Rate FTES	4,585		Cr Rate FTES	4,585		Cr Rate FTES	4,585
Deficit Factor	(1,563,416)			(1,503,900)			(1,424,793)	Deficit Factor	1.00%	(1,364,788)	Deficit Factor	1.00%	(1,334,781)	Deficit Factor	1.00%
Non-Res	18,139,095	Fee Incr	0.00%	19,968,830	Fee Incr	0.00%	19,968,830	Fee Incr	0.00%	19,968,830	Fee Incr	0.00%	19,968,830	Fee Incr	0.00%
	0	Growth	0.00%	0	Growth	0.00%	0	Growth	0.00%	0	Growth	0.00%	0	Growth	0.00%
Other	8,239,173		0.00%	7,896,450		0.00%	7,704,663		0.00%	7,559,189		0.00%	7,486,440		0.00%
Total Revenue	181,156,493			176,751,387			168,727,979			162,642,059			159,598,593		
Expenses:															
Salaries:															
FT Faculty	44,700,934	COLA	0.00%	44,700,934	COLA	0.00%	44,700,934	COLA	0.00%	44,700,934	COLA	0.00%	44,700,934	COLA	0.00%
	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%
		steps, colu	1.00%	447,009	steps, column	1.00%	447,009	steps, column	1.00%	447,009	steps, column	1.00%	447,009	steps, column	1.00%
PT Faculty	32,112,201	COLA	0.00%	29,409,292	COLA	0.00%	26,801,616	COLA	0.00%	24,823,640	COLA	0.00%	23,834,487	COLA	0.00%
	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%
PT Equitu Full Implementation	-		0.00%	294,093		1.00%	268,016	steps, column	1.00%	248,236	steps, column	1.00%	238,345	steps, column	1.00%
Change in Productivitu															
Non-teaching	39,222,821	COLA	0.00%	39,222,821	COLA	0.00%	39,222,821	COLA	0.00%	39,222,821	COLA	0.00%	39,222,821	COLA	0.00%
	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%
		steps, colu	1.00%	392,228	steps, column	1.00%	392,228	steps, column	1.00%	392,228	steps, column	1.00%	392,228	steps, column	1.00%
Total Salaries	116,035,956			114,466,377			111,832,624			109,834,868			108,835,824		
Benefits:															
Discretionary	22,112,794	Cost Incr	0.00%	22,112,794	Cost Incr	0.00%	22,112,794	Cost Incr	0.00%	22,112,794	Cost Incr	0.00%	22,112,794	Cost Incr	0.00%
Regulatory	17,071,742	COLA	0.00%	17,071,742	COLA	0.00%	17,071,742	COLA	0.00%	17,071,742	COLA	0.00%	17,071,742	COLA	0.00%
	-	steps, colu	0.00%	391,845	steps, column	1.00%	391,845	steps, column	1.00%	391,845	steps, column	1.00%	391,845	steps, column	1.00%
	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%	-	Growth	0.00%
Total Benefits	39,184,536			39,576,381			39,576,381			39,576,381			39,576,381		
B Budget	8,737,434	COLA	0.00%	8,737,434	COLA	0.00%	8,737,434	COLA	0.00%	8,737,434	COLA	0.00%	8,737,434	COLA	0.00%
	0	Growth	0.00%	0	Growth	0.00%	0	Growth	0.00%	0	Growth	0.00%	0	Growth	0.00%
Unfunded Ret Liability	400,000		0.00%	400,000		0.00%	400,000		0.00%	400,000		0.00%	400,000		0.00%
Utilities	3,161,493		0.00%	3,161,493		0.00%	3,161,493		0.00%	3,161,493		0.00%	3,161,493		0.00%
Insurance and Claims	1,062,710		0.00%	1,115,845		5.00%	1,115,845		5.00%	1,115,845		5.00%	1,115,845		5.00%
Software/Hardware Maint	1,353,345		0.00%	1,488,679		10.00%	1,488,679		10.00%	1,488,679		10.00%	1,488,679		10.00%
Special Ed Match	5,095,739		0.00%	5,146,696		1.00%	5,146,696		1.00%	5,146,696		1.00%	5,146,696		1.00%
Lease of Instr Space	1,055,328		0.00%	1,073,269		1.70%	1,073,269		1.70%	1,073,269		1.70%	1,073,269		1.70%
Other	6,186,912		0.00%	6,718,650		2.00%	6,718,650		2.00%	6,718,650		2.00%	6,718,650		2.00%
Total Other Expenses	27,052,960			27,842,066			27,842,066			27,842,066			27,842,066		
Total Expenses	182,273,451			181,884,824			179,251,071			177,253,315			176,254,271		
Difference (Revenue less Expenses)	(1,116,958)			(5,133,437)			(10,523,092)			(14,611,256)			(16,655,678)		
Escrow II and Deferment I positions absorbed on ongoing basis															
Net Revenue Over Expenses (Ongoing)	(1,116,958)			(5,133,437)			(10,523,092)			(14,611,256)			(16,655,678)		

Table 1

## Analysis Of FTES

09-10 P-A	Resident Credit	Non Credit	Total Apportionment	Non resident	Total
De Anza	18,529	79	18,608	2,538	21,147
Foothill	14,162	218	14,380	1,530	15,910
Total	32,692	297	32,988	4,068	37,056

**variance from workload reduction**      **908**      **-20**      **888**  
1.028

10-11 Adopt Budget-revised 7/27/10	Resident Credit	Non Credit	Total Apportionment	Non resident	Total
De Anza	18,529	79	18,608	2,538	21,147
Foothill	13,254	238	13,492	1,530	15,022
Total	31,783	317	32,100	4,068	36,168

Revised Base from recertified 09/10	31,798	297	32,094	4,068	36,162
draft 1/10/11	09/10 over base		894		

10-11 P-1	Resident Credit	Non Credit	Total Apportionment	Non resident	Total
De Anza	17,301	0	17,301	2,073	19,374
Foothill	13,382	109	13,491	1,519	15,010
Total	30,683	109	30,792	3,592	34,384
	FTES below base		1,302		
	% below base		4%		

11-12 Projected--Status Quo	Resident Credit	Non Credit	Total Apportionment	Non resident	Total
De Anza	17,301	0	17,301	2,073	19,374
Foothill	13,382	109	13,491	1,519	15,010
Total	30,683	109	30,792	3,592	34,384
			New Base for 11/12		

Same FTES as funded in 09/10 (source, draft recalc 1/10/11)

11-12 Projected-Scenario 1--6 % Workload Reduction (based on \$7.9M reduction)	Resident Credit	Non Credit	Total Apportionment	Non resident	Total
De Anza	16,330	0	16,330	2,073	18,403
Foothill	12,631	103	12,734	1,519	14,253
Total	28,961	103	29,064	3,592	32,656

Workload Reduction estimated at 6%      total state reduction estim \$8M      0.94

11-12 Projected-Scenario 2A--10 % Workload Reduction (based on \$14M reduction)	Resident Credit	Non Credit	Total Apportionment	Non resident	Total
De Anza	15,594	0	15,594	2,073	17,667
Foothill	12,061	98	12,160	1,519	13,679
Total	27,655	98	27,753	3,592	31,346

Workload Reduction estimated at 10%      total state reduction estim \$14M      0.90

11-12 Projected-Scenario 2B--12 % Workload Reduction (based on \$17M reduction), no offset of cuts by fee increase	Resident Credit	Non Credit	Total Apportionment	Non resident	Total
De Anza	15,225	0	15,225	2,073	17,299
Foothill	11,777	96	11,873	1,519	13,392
Total	27,002	96	27,098	3,592	30,690

Workload Reduction estimated at 12%      total state reduction estim \$17M      0.88