

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 will 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: Kevin McElroy, Bernata Slater
Is backup provided?: yes

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.

