RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

2323 N. Broadway, Santa Ana, California 92706
Office: (714) 480-7321 Fax: (714) 796-3935

Budget Allocation and Planning Review Committee

Agenda for November 28, 2012

1:30 p.m. - 3:00 p.m.
District Office Board Room

1. Welcome
2. State/District Budget Update-Peter Hardash
   - Proposition 30 / Education Protection Account
   - LAO Report Excerpts/SSC LAO Forecast $4.2 Billion for Prop 98 in 2013-14
   - Board Budget Update November 13, 2012
   - CCLC State Budget Update November 16, 2012
   - Property Taxes / Negative ERAF / Student Fees
   - SSC Financial Projection Dartboard
3. Multi-Year Budget Projections
4. Committee Updates
   - Human Resources Committee
   - District Facility Planning Committee
   - Technology Advisory Group
   - Accreditation Update-John Didion
     - Planning and Organizational Effectiveness Committee
   - SB361 BAM Implementation Technical Committee
5. Informational Handouts
   - District-wide expenditure report link: https://intranet.rsccd.edu
   - Vacant Funded Position List as of November 19, 2012
   - FTES Update as of November 20, 2012
6. 2013-2014 Budget Calendars Draft / Meeting Date Changes
7. Approval of BAPRC Minutes – October 17, 2012
8. Other

Next BAPR Committee Meeting: (District Office Board Room 1:30 pm – 3:00 pm)
December 12, 2012
January 23, 2013
February 20, 2013
March 20, 2013
April 17, 2013
~~May 15, 2013 (3-5pm)~~ May 29, 2013
June 5, 2013

The COMMUNITY COLLEGE UPDATE

Volume 25 For Publication Date: November 21, 2012 No. 23

Budget Planning Post-Proposition 30

At the November 13, 2012, meeting of the California Community College Board of Governors (BOG), Vice Chancellor Dan Troy provided a post-election update and discussed the ramifications of the passage of Proposition 30. Vice Chancellor Troy gave much credit to the community college student and campus efforts that helped to pass Proposition 30 last week, as well as to the BOG, which took the position of supporting the initiative at its last meeting.

Passage of Proposition 30 means the avoidance of a 7.3% workload reduction for California Community Colleges, reduces community college deferrals by $159 million in 2012-13, and provides an additional $50 million in growth funding for 2012-13. Vice Chancellor Troy explained at the BOG meeting that the intention is to use the $50 million in growth to continue the restoration of 2009-10 growth and that the first call on dollars will be to restore what is left over from 2009-10 for those districts that were not able to utilize all of the growth funds available to them during that round of restorations.

Proposition 30 creates an "Education Protection Account" (EPA) that collects the funds generated by the temporary increased sales and personal income taxes over the next several years. The initial distribution of these funds will be made in June and cannot be used for administrative compensation or costs. While not well defined at this point, fiscal standards are being developed and will be provided to districts in order to comply with this requirement. Vice Chancellor Troy emphasized that these moneys are one time in nature, though occurring over several years: the sales tax will be in place for four years and the personal income tax increase will be in place for seven years. As such, districts are encouraged to allocate those funds prudently.

With the election finalized, the Chancellor's Office will be distributing more-detailed payment schedules for growth and EPA funding as soon as possible to assist in district budget planning. As Vice Chancellor Troy noted, "I would rather have complicated money than no money."

—Michelle McKay Underwood

posted 11/15/2012

12-0009

March 14, 2012

RECEIVED
MAR 14 2012
INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

VIA MESSENGER

Office of the Attorney General
1300 "I" Street
Sacramento, CA 95814

Attention: Ashley Johansson

Re: *The Schools and Local Public Safety Protection Act of 2012 - ver. 3*

Dear Ms. Johansson:

In accordance with the requirements of Elections Code section 9001(a), I request that the Attorney General prepare a circulating title and summary for a measure entitled "The Schools and Local Public Safety Protection Act of 2012." The text of the measure, a check for $200.00, and the certifications required by Elections Code sections 9001(b) and 9608 are enclosed.

This initiative is substantively identical to The Schools and Local Public Safety Protection Act of 2012 (ver. 2), AG number 12-0001, except that (1) the sales and use tax increase is only ¼ cent; (2) the income tax rate for the top two brackets is raised by an additional .5 and 1.0 percent, respectively; and (3) the income tax rate increases remain in effect through the end of the 2018 tax year.

Please direct all correspondence and inquiries regarding this measure to:

Karen Getman
Thomas A. Willis
Remcho, Johansen & Purcell, LLP
201 Dolores Avenue
San Leandro, CA 94577
Phone: (510) 346-6200
Fax: (510) 346-6201

Sincerely,

Thomas A. Willis

Enclosures
(00166767)

12-0009 V.3

THE SCHOOLS AND LOCAL PUBLIC SAFETY PROTECTION ACT OF 2012

Sec. 1. Title.

This measure shall be known and may be cited as "The Schools and Local Public Safety Protection Act of 2012."

Sec. 2. Findings.

(a) Over the past 4 years alone, California has had to cut more than $56 billion from education, police and fire protection, healthcare and other critical state and local services. These funding cuts have forced teacher layoffs, increased school class sizes, increased college fees, reduced police protection, increased fire response times, exacerbated dangerous overcrowding in prisons, and substantially reduced oversight of parolees.

(b) These cuts in critical services have hurt California's seniors, middle-class, working families, children, college students and small businesses the most. We cannot afford more cuts to education and the other services we need.

(c) After years of cuts and difficult choices it is necessary to turn the state around. Raising new tax revenue is an investment in our future that will put California back on track for growth and success.

(d) The Schools and Local Public Safety Protection Act of 2012 will make California's tax system more fair. With working families struggling while the wealthiest among us enjoy record income growth, it is only right to ask the wealthy to pay their fair share.

(e) The Schools and Local Public Safety Protection Act of 2012 raises the income tax on those at the highest end of the income scale – those who can most afford it. It also temporarily restores some sales taxes in effect last year, while keeping the overall sales tax rate lower than it was in early 2011.

(f) The new taxes in this measure are temporary. Under the Constitution the 1/4 cent sales tax increase expires in four years, and the income tax increases for the wealthiest taxpayers end in seven years.

(g) The new tax revenue is guaranteed in the Constitution to go directly to local school districts and community colleges. Cities and counties are guaranteed ongoing funding for public safety programs such as local police and child protective services. State money is freed up to help balance the budget and prevent even more devastating cuts to services for seniors, working families, and small businesses. Everyone benefits.

(h) To ensure these funds go where the voters intend, they are put in special accounts that the Legislature cannot touch. None of these new revenues can be spent on state bureaucracy or administrative costs.

(i) These funds will be subject to an independent audit every year to ensure they are spent only for schools and public safety. Elected officials will be subject to prosecution and criminal penalties if they misuse the funds.

Sec. 3. Purpose and Intent.

(a) The chief purpose of this measure is to protect schools and local public safety by asking the wealthy to pay their fair share of taxes. This measure takes funds away from state control and places them in special accounts that are exclusively dedicated to schools and local public safety in the state constitution.

(b) This measure builds on a broader state budget plan that has made billions of dollars in permanent cuts to state spending.

(c) The measure guarantees solid, reliable funding for schools, community colleges, and public safety while helping balance the budget and preventing further devastating cuts to services for seniors, middle-class, working families, children and small businesses.

(d) This measure gives constitutional protection to the shift of local public safety programs from state to local control and the shift of state revenues to local government to pay for those programs. It guarantees that schools are not harmed by providing even more funding than schools would have received without the shift.

(e) This measure guarantees that the new revenues it raises will be sent directly to school districts for classroom expenses, not administrative costs. This school funding cannot be suspended or withheld no matter what happens with the state budget.

(f) All revenues from this measure are subject to local audit every year, and audit by the independent Controller to ensure that they will be used only for schools and local public safety.

Sec. 4: Section 36 is added to Article XIII of the California Constitution, to read:

SEC. 36. (a) For purposes of this section:

(1) "Public Safety Services" includes the following:

(A) Employing and training public safety officials, including law enforcement personnel, attorneys assigned to criminal proceedings, and court security staff.

(B) Managing local jails and providing housing, treatment, and services for, and supervision of, juvenile and adult offenders.

(C) Preventing child abuse, neglect, or exploitation; providing services to children and youth who are abused, neglected, or exploited, or who are at risk of abuse, neglect, or exploitation, and the families of those children; providing adoption services; and providing adult protective services.

(D) Providing mental health services to children and adults to reduce failure in school, harm to self or others, homelessness, and preventable incarceration or institutionalization.

(E) Preventing, treating, and providing recovery services for substance abuse.

(2) "2011 Realignment Legislation" means legislation enacted on or before September 30, 2012, to implement the state budget plan, that is entitled 2011 Realignment and provides for the assignment of Public Safety Services responsibilities to local agencies, including related reporting responsibilities. The legislation shall provide local agencies with maximum flexibility and control over the design, administration, and delivery of Public Safety Services consistent with federal law and funding requirements, as determined by the Legislature.. However, 2011 Realignment Legislation shall include no new programs assigned to local agencies after January 1, 2012 except for the early periodic screening, diagnosis, and treatment (EPSDT) program and mental health managed care.

(b)(1) Except as provided in (d), commencing in fiscal year 2011-2012 and continuing thereafter, the following amounts shall be deposited into the Local Revenue Fund 2011, as established by Section 30025 of the Government Code, as follows:

(A) All revenues, less refunds, derived from the taxes described in Sections 6051.15 and 6201.15 of the Revenue and Taxation Code, as those sections read on July 1, 2011.

(B) All revenues, less refunds, derived from the vehicle license fees described in Section 11005 of the Revenue and Taxation Code, as that section read on July 1, 2011.

(2) On and after July 1, 2011, the revenues deposited pursuant to paragraph (1) shall not be considered General Fund revenues or proceeds of taxes for purposes of Section 8 of Article XVI of the California Constitution.

(c)(1) Funds deposited in the Local Revenue Fund 2011, are continuously appropriated exclusively to fund the provision of Public Safety Services by local agencies. Pending full implementation of the 2011 Realignment Legislation, funds may also be used to reimburse the State for program costs incurred in providing Public Safety Services on behalf of local agencies. The methodology for allocating funds shall be as specified in the 2011 Realignment Legislation.

(2) The county treasurer, city and county treasurer, or other appropriate official shall create a County Local Revenue Fund 2011 within the treasury of each county or city

and county. The money in each County Local Revenue Fund 2011 shall be exclusively used to fund the provision of Public Safety Services by local agencies as specified by the 2011 Realignment Legislation.

(3) Notwithstanding Section 6 of Article XIII B, or any other constitutional provision, a mandate of a new program or higher level of service on a local agency imposed by the 2011 Realignment Legislation, or by any regulation adopted or any executive order or administrative directive issued to implement that legislation, shall not constitute a mandate requiring the State to provide a subvention of funds within the meaning of that section. Any requirement that a local agency comply with Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5 of the Government Code, with respect to performing its Public Safety Services responsibilities, or any other matter, shall not be a reimbursable mandate under Section 6 of Article XIII B.

(4)(A) Legislation enacted after September 30, 2012, that has an overall effect of increasing the costs already borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation shall apply to local agencies only to the extent that the State provides annual funding for the cost increase. Local agencies shall not be obligated to provide programs or levels of service required by legislation, described in this subparagraph, above the level for which funding has been provided.

(B) Regulations, executive orders, or administrative directives, implemented after October 9, 2011, that are not necessary to implement the 2011 Realignment Legislation, and that have an overall effect of increasing the costs already borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation, shall apply to local agencies only to the extent that the State provides annual funding for the cost increase. Local agencies shall not be obligated to provide programs or levels of service pursuant to new regulations, executive orders, or administrative directives, described in this subparagraph, above the level for which funding has been provided.

(C) Any new program or higher level of service provided by local agencies, as described in subparagraphs (A) and (B), above the level for which funding has been provided, shall not require a subvention of funds by the State nor otherwise be subject to Section 6 of Article XIII B. This paragraph shall not apply to legislation currently exempt from subvention under paragraph (2) of subdivision (a) of Section 6 of Article XIII B as that paragraph read on January 2, 2011.

(D) The State shall not submit to the federal government any plans or waivers, or amendments to those plans or waivers, that have an overall effect of increasing the cost borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation, except to the extent that the plans, waivers, or amendments are required by federal law, or the State provides annual funding for the cost increase.

(E) The State shall not be required to provide a subvention of funds pursuant to this paragraph for a mandate that is imposed by the State at the request of a local agency or to comply with federal law. State funds required by this paragraph shall be from a source other than those described in subdivisions (b) and (d), ad valorem property taxes, or the Social Services Subaccount of the Sales Tax Account of the Local Revenue Fund.

(5)(A) For programs described in subparagraphs (C) to (E) inclusive, of paragraph (1) of subdivision (a) and included in the 2011 Realignment Legislation, if there are subsequent changes in federal statutes or regulations that alter the conditions under which federal matching funds as described in the 2011 Realignment Legislation are obtained, and have the overall effect of increasing the costs incurred by a local agency, the State shall annually provide at least 50 percent of the nonfederal share of those costs as determined by the State.

(B) When the State is a party to any complaint brought in a federal judicial or administrative proceeding that involves one or more of the programs described in subparagraphs (C) to (E) inclusive, of paragraph (1) of subdivision (a) and included in the 2011 Realignment Legislation, and there is a settlement or judicial or administrative order that imposes a cost in the form of a monetary penalty or has the overall effect of increasing the costs already borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation, the State shall annually provide at least 50 percent of the nonfederal share of those costs as determined by the State. Payment by the State is not required if the State determines that the settlement or order relates to one or more local agencies failing to perform a ministerial duty, failing to perform a legal obligation in good faith, or acting in a negligent or reckless manner.

(C) The state funds provided in this paragraph shall be from funding sources other than those described in subdivisions (b) and (d), ad valorem property taxes, or the Social Services Subaccount of the Sales Tax Account of the Local Revenue Fund.

(6) If the State or a local agency fails to perform a duty or obligation under this section or under the 2011 Realignment Legislation, an appropriate party may seek judicial relief. These proceedings shall have priority over all other civil matters.

(7) The funds deposited into a County Local Revenue Fund 2011 shall be spent in a manner designed to maintain the State's eligibility for federal matching funds, and to ensure compliance by the State with applicable federal standards governing the State's provision of Public Safety Services.

(8) The funds deposited into a County Local Revenue Fund 2011 shall not be used by local agencies to supplant other funding for Public Safety Services.

(d) If the taxes described in subdivision (b) are reduced or cease to be operative, the State shall annually provide moneys to the Local Revenue Fund 2011 in an amount equal to or greater than the aggregate amount that otherwise would have been provided by the taxes described in subdivision (b). The method for determining that amount shall be described in the 2011 Realignment Legislation, and the State shall be obligated to provide that amount for so long as the local agencies are required to perform the Public Safety Services responsibilities assigned by the 2011 Realignment Legislation. If the State fails to annually appropriate that amount, the Controller shall transfer that amount from the General Fund in pro rata monthly shares to the Local Revenue Fund 2011. Thereafter, the Controller shall disburse these amounts to local agencies in the manner directed by the 2011 Realignment Legislation. The state obligations under this subdivision shall have a lower priority claim to General Fund money than the first priority for money to be set apart under Section 8 of Article XVI and the second priority to pay voter-approved debts and liabilities described in Section 1 of Article XVI.

(e)(1) To ensure that public education is not harmed in the process of providing critical protection to local Public Safety Services, the Education Protection Account is hereby created in the General Fund to receive and disburse the revenues derived from the incremental increases in taxes imposed by this section as specified in subdivision (f).

(2)(A) Before June 30, 2013, and before June 30th of each year thereafter through 2018, the Director of Finance shall estimate the total amount of additional revenues, less refunds, that will be derived from the incremental increases in tax rates made in subdivision (f) that will be available for transfer into the Education Protection Account during the next fiscal year. The Director of Finance shall make the same estimate by January 10, 2013, for additional revenues, less refunds, that will be received by the end of the 2012-13 fiscal year.

(B) During the last ten days of the quarter of each of the first three quarters of each fiscal year from 2013-14 through 2018-19, the Controller shall transfer into the Education Protection Account one fourth of the total amount estimated pursuant to subparagraph (A) for that fiscal year, except as this amount may be adjusted pursuant to subparagraph (D).

(C) In each of the fiscal years 2012-13 through 2020-21, the Director of Finance shall calculate an adjustment to the Education Protection Account, as specified by subparagraph (D), by adding together the following amounts, as applicable:

(i) In the last quarter of each fiscal year from 2012-13 through 2018-19, the Director of Finance shall recalculate the estimate made for the fiscal year pursuant to subparagraph (A), and shall subtract from this updated estimate the amounts previously transferred to the Education Protection Account for that fiscal year.

(ii) In June 2015 and in every June through 2021, the Director of Finance shall make a final determination of the amount of additional revenues, less refunds, derived from the incremental increases in tax rates made in subdivision (f) for the fiscal year ending two years prior. The amount of the updated estimate calculated in clause (i) for the fiscal year ending two years prior shall be subtracted from the amount of this final determination.

(D) If the sum determined pursuant to subparagraph (C) is positive, the Controller shall transfer an amount equal to that sum into the Education Protection Account within 10 days preceding the end of the fiscal year. If that amount is negative, the Controller shall suspend or reduce subsequent quarterly transfers, if any, to the Education Protection Account until the total reduction equals the negative amount herein described. For purposes of any calculation made pursuant to clause (i) of subparagraph (C), the amount of a quarterly transfer shall not be modified to reflect any suspension or reduction made pursuant to this subparagraph.

(3) All moneys in the Education Protection Account are hereby continuously appropriated for the support of school districts, county offices of education, charter schools, and community college districts as set forth in this paragraph.

(A) Eleven percent of the moneys appropriated pursuant to this paragraph shall be allocated quarterly by the Board of Governors of the California Community Colleges to community college districts to provide general purpose funding to community college districts in proportion to the amounts determined pursuant to Section 84750.5 of the Education Code, as that code section read upon the enactment of this section. The allocations calculated pursuant to this subparagraph shall be offset by the amounts specified in subdivisions (a), (c) and (d) of Section 84751 of the Education Code, as that section read upon enactment of this section, that are in excess of the amounts calculated pursuant to Section 84750.5 of the Education Code, as that section read upon enactment of this section, provided that no community college district shall receive less than one hundred dollars ($100) per full time equivalent student.

(B) Eighty nine percent of the moneys appropriated pursuant to this paragraph shall be allocated quarterly by the Superintendent of Public Instruction to provide general purpose funding to school districts, county offices of education, and state general-purpose funding to charter schools in proportion to the revenue limits calculated pursuant to Sections 2558 and 42238 and the amounts calculated pursuant to Section 47633 of the Education Code for county offices of education, school districts, and charter schools, respectively, as those sections read upon enactment of this section. The amounts so calculated shall be offset by the amounts specified in subdivision (c) of Section 2558, paragraphs (1) through (7) of subdivision (h) of Section 42238, and Section 47635 of the Education Code for county offices of education, school districts, and charter schools, respectively, as those sections read upon enactment of this section, which are in excess of the amounts calculated pursuant to Sections 2558, 42238, and 47633 of the Education Code for county offices of education, school districts, and charter schools, respectively, as those sections read upon enactment of this section, provided that no school district, county office of education, or charter school shall receive less than two hundred dollars ($200) per unit of average daily attendance.

(4) This subdivision is self-executing and requires no legislative action to take effect. Distribution of the moneys in the Education Protection Account by the Board of

Governors of the California Community Colleges and the Superintendent of Public Instruction shall not be delayed or otherwise affected by failure of the Legislature and Governor to enact an annual budget bill pursuant to Section 12 of Article IV, by invocation of paragraph (h) of Section 8 of Article XVI, or by any other action or failure to act by the Legislature or Governor.

(5) Notwithstanding any other provision of law, the moneys deposited in the Education Protection Account shall not be used to pay any costs incurred by the Legislature, Governor or any agency of state government.

(6) A community college district, county office of education, school district, and charter school shall have sole authority to determine how the moneys received from the Education Protection Account are spent in the school or schools within its jurisdiction, provided, however, that the appropriate governing board or body shall make these spending determinations in open session of a public meeting of the governing board or body and shall not use any of the funds from the Education Protection Account for salaries or benefits of administrators or any other administrative costs. Each community college district, county office of education, school district, and charter school shall annually publish on its Internet Web site an accounting of how much money was received from the Education Protection Account and how that money was spent.

(7) The annual independent financial and compliance audit required of community college districts, county offices of education, school districts, and charter schools shall, in addition to all other requirements of law, ascertain and verify whether the funds provided from the Education Protection Account have been properly disbursed and expended as required by this section. Expenses incurred by those entities to comply with the additional audit requirement of this section may be paid with funding from the Education Protection Account and shall not be considered administrative costs for purposes of this section.

(8) Revenues, less refunds, derived pursuant to subdivision (f) for deposit in the Education Protection Account pursuant to this section shall be deemed "General Fund revenues," "General Fund proceeds of taxes" and "moneys to be applied by the State for the support of school districts and community college districts" for purposes of Section 8 of Article XVI.

(f)(1)(A) In addition to the taxes imposed by Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code, for the privilege of selling tangible personal property at retail, a tax is hereby imposed upon all retailers at the rate of 1/4 percent of the gross receipts of any retailer from the sale of all tangible personal property sold at retail in this state on and after January 1, 2013, and before January 1, 2017.

(B) In addition to the taxes imposed by Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code, an excise tax is hereby imposed on the storage, use, or other consumption in this state of tangible personal property purchased from any retailer on and after January 1, 2013, and before January 1, 2017, for storage, use, or other consumption in this state at the rate of 1/4 percent of the sales price of the property.

(C) The Sales and Use Tax Law, including any amendments enacted on or after the effective date of this section, shall apply to the taxes imposed pursuant to this paragraph.

(D) This paragraph shall cease to be operative on January 1, 2017.

(2) For any taxable year beginning on or after January 1, 2012, and before January 1, 2019, with respect to the tax imposed pursuant to Section 17041 of the Revenue and Taxation Code, the income tax bracket and the rate of 9.3 percent set forth in paragraph (1) of subdivision (a) of Section 17041 of the Revenue and Taxation Code shall be modified by each of the following:

(A)(i) For that portion of taxable income that is over two hundred and fifty thousand dollars ($250,000) but not over three hundred thousand dollars ($300,000) the tax rate is 10.3 percent of the excess over two hundred and fifty thousand dollars ($250,000).

(ii) For that portion of taxable income that is over three hundred thousand dollars ($300,000) but not over five hundred thousand dollars ($500,000) the tax rate is 11.3 percent of the excess over three hundred thousand dollars ($300,000).

(iii) For that portion of taxable income that is over five hundred thousand dollars ($500,000), the tax rate is 12.3 percent of the excess over five hundred thousand dollars ($500,000).

(B) The income tax brackets specified in clauses (i), (ii), and (iii) of subparagraph (A) shall be recomputed, as otherwise provided in subdivision (h) of Section 17041 of the Revenue and Taxation Code, only for taxable years beginning on and after January 1, 2013.

(C)(i) For purposes of subdivision (g) of Section 19136 of the Revenue and Taxation Code, this provision shall be considered to be chaptered on the date it becomes effective.

(ii) For purposes of Part 10 (commencing with Section 17001) and Part 10.2 (commencing with Section 18401) of Division 2 of the Revenue and Taxation Code, the modified tax brackets and tax rates established and imposed by this paragraph shall be deemed to be established and imposed under Section 17041 of the Revenue and Taxation Code.

(D) This paragraph shall cease to be operative on December 1, 2019.

(3) For any taxable year beginning on or after January 1, 2012, and before January 1, 2019, with respect to the tax imposed pursuant to Section 17041 of the Revenue and Taxation Code, the income tax bracket and the rate of 9.3 percent set forth in paragraph (1) of subdivision (c) of Section 17041 of the Revenue and Taxation Code shall be modified by each of the following:

(A)(i) For that portion of taxable income that is over three hundred forty thousand dollars ($340,000) but not over four hundred eight thousand dollars ($408,000) the tax rate is 10.3 percent of the excess over three hundred forty thousand dollars ($340,000).

(ii) For that portion of taxable income that is over four hundred eight thousand dollars ($408,000) but not over six hundred eighty thousand dollars ($680,000) the tax rate is 11.3 percent of the excess over four hundred eight thousand dollars ($408,000).

(iii) For that portion of taxable income that is over six hundred eighty thousand dollars ($680,000), the tax rate is 12.3 percent of the excess over six hundred eighty thousand dollars ($680,000).

(B) The income tax brackets specified in clauses (i), (ii), and (iii) of subparagraph (A) shall be recomputed, as otherwise provided in subdivision (h) of Section 17041 of the Revenue and Taxation Code, only for taxable years beginning on and after January 1, 2013.

(C)(i) For purposes of subdivision (g) of Section 19136 of the Revenue and Taxation Code, this provision shall be considered to be chaptered on the date it becomes effective.

(ii) For purposes of Part 10 (commencing with Section 17001) and Part 10.2 (commencing with Section 18401) of Division 2 of the Revenue and Taxation Code, the modified tax brackets and tax rates established and imposed by this paragraph shall be deemed to be established and imposed under Section 17041 of the Revenue and Taxation Code.

(D) This paragraph shall cease to be operative on December 1, 2019.

(g)(1) The Controller, pursuant to his or her statutory authority, may perform audits of expenditures from the Local Revenue Fund 2011 and any County Local Revenue Fund 2011, and shall audit the Education Protection Account to ensure that those funds are used and accounted for in a manner consistent with this section.

(2) The Attorney General or local district attorney shall expeditiously investigate, and may seek civil or criminal penalties for, any misuse of moneys from the County Local Revenue Fund 2011 or the Education Protection Account.

Sec. 5. Effective Date.

Subdivision (b) of Section 36 of Article XIII, as added by this measure, shall be operative as of July 1, 2011. Paragraphs (2) and (3) of subdivision (f) of Section 36 of Article XIII, as added by this measure, shall be operative as of January 1, 2012. All other provisions of this measure shall take effect the day after the election in which it is approved by a majority of the voters voting on the measure provided.

Sec. 6. Conflicting Measures.

In the event that this measure and another measure that imposes an incremental increase in the tax rates for personal income shall appear on the same statewide ballot, the provisions of the other measure or measures shall be deemed to be in conflict with this measure. In the event that this measure receives a greater number of affirmative votes than a measure deemed to be in conflict with it, the provisions of this measure shall prevail in their entirety, and the other measure or measures shall be null and void.

Sec. 7.

This measure provides funding for school districts and community college districts in an amount that equals or exceeds that which would have been provided if the revenues deposited pursuant to Sections 6051.15 and 6201.15 of the Revenue and Taxation Code pursuant to Chapter 43 of the Statutes of 2011 had been considered "General Fund revenues" or "General Fund proceeds of taxes" for purposes of Section 8 of Article XVI of the California Constitution.

The 2013-14 Budget:
California's Fiscal Outlook

MAC TAYLOR • LEGISLATIVE ANALYST • NOVEMBER 2012

LAO

Executive Summary

Budget Situation Has Improved Sharply. The state's economic recovery, prior budget cuts, and the additional, temporary taxes provided by Proposition 30 have combined to bring California to a promising moment: the possible end of a decade of acute state budget challenges. Our economic and budgetary forecast indicates that California's leaders face a dramatically smaller budget problem in 2013-14 compared to recent years. Furthermore, assuming steady economic growth and restraint in augmenting current program funding levels, there is a strong possibility of multibillion-dollar operating surpluses within a few years.

The Budget Forecast

Projected $1.9 Billion Budget Problem to Be Addressed by June 2013. The 2012-13 budget assumed a year-end reserve of $948 million. Our forecast now projects the General Fund ending 2012-13 with a $943 million deficit, due to the net impact of (1) $625 million of lower revenues in 2011-12 and 2012-13 combined, (2) $2.7 billion in higher expenditures (including $1.8 billion in lower-than-budgeted savings related to the dissolution of redevelopment agencies), and (3) an assumed $1.4 billion positive adjustment in the 2010-11 ending budgetary fund balance. We also expect that the state faces a $936 million operating deficit under current policies in 2013-14. These estimates mean that the new Legislature and the Governor will need to address a $1.9 billion budget problem in order to pass a balanced budget by June 2013 for the next fiscal year.

Surpluses Projected Over the Next Few Years. Based on current law and our economic forecast, expenditures are projected to grow less rapidly than revenues. Beyond 2013-14, we therefore project growing operating surpluses through 2017-18—the end of our forecast period. Our projections show that there could be an over $1 billion operating surplus in 2014-15, growing thereafter to an over $9 billion surplus in 2017-18. This outlook differs dramatically from the severe operating deficits we have forecast in November *Fiscal Outlook* reports over the past decade.

LAO Comments

Despite Positive Outlook, Caution Is Appropriate. Our multiyear budget forecast depends on a number of key economic, policy, and budgetary assumptions. For example, we assume steady growth in the economy and stock prices. We also assume—as the state's recent economic forecasts have—that federal officials take actions to avoid the near-term economic problems associated with the so-called "fiscal cliff." Consistent with state law, our forecast omits cost-of-living adjustments for most state departments, the courts, universities, and state employees. The forecast also assumes no annual transfers into a state reserve account provided by Proposition 58 (2004). Changes in these assumptions could dramatically lower—or even eliminate—our projected out-year operating surpluses.

Considering Future Budget Surpluses. If, however, a steady economic recovery continues and the Legislature and the Governor keep a tight rein on state spending in the next couple of years, there is a strong likelihood that the state will have budgetary surpluses in subsequent years. The state has many choices for what to do with these surpluses. We advise the state's leaders to begin building the reserve envisioned by Proposition 58 (2004) as soon as possible. Beyond building a reserve, the state must develop strategies to address outstanding retirement liabilities—particularly for the teachers' retirement system—and other liabilities. The state will also be able to selectively restore recent program cuts—particularly in Proposition 98 programs (based on steady projected growth in the minimum guarantee).

Chapter 1

The Budget Outlook

This publication summarizes our office's independent projections for California's economy, tax revenues, and expenditures from the state General Fund, as well as the Education Protection Account (EPA) created by Proposition 30. Our forecast is based on current state law and policies, as discussed in the nearby box (see page 2).

THE BUDGET FORECAST

Projected $1.9 Billion Budget Problem Must Be Addressed by June 2013. The *2012-13 Budget Act* assumed a year-end reserve of $948 million. As shown in Figure 1, assuming that no corrective budgetary actions are taken, we project that the state will close 2012-13 with a $943 million deficit. As discussed later, lower-than-expected savings related to the dissolution of redevelopment agencies (RDAs) and other budgetary erosions contribute to this shortfall. We also expect that the state faces an operating deficit in 2013-14—the difference between current-law revenues and expenditures in that fiscal year—of $936 million. These estimates mean that the new Legislature and the Governor will need to address a $1.9 billion budget problem in order to pass a balanced budget in June 2013 for the next fiscal year. This is a dramatically smaller budget problem than the state has faced in recent years.

Projected 2012-13 Deficit of $943 Million

Higher Spending and Lower Revenues Contribute to Deficit. The $1.9 billion deterioration in the 2012-13 budget situation is due to the impact of (1) $625 million of lower revenues in 2011-12 and 2012-13 combined, (2) $2.7 billion in higher expenditures, and (3) an assumed $1.4 billion positive adjustment in the 2010-11 ending budgetary fund balance.

Figure 1

LAO Projections of General Fund Condition If No Corrective Actions Are Taken

(In Millions, Includes Education Protection Account)

	2011-12	2012-13	2013-14
Prior-year fund balances	-$1,285	-$1,885	-$224
Revenues and transfers	86,482	95,610	96,743
Expenditures	87,082	93,950	97,679
Ending fund balance	-$1,885	-$224	-$1,160
Encumbrances	719	719	719
Reserve[a]	**-$2,604**	**-$943**	**-$1,879**

[a] Special Fund for Economic Uncertainties. Assumes no transfers to the state's Budget Stabilization Account.

(The box on page 3 discusses the subject of revenue accruals—reportedly responsible for the fund balance adjustment—and other accounting issues related to the state budget.)

Revenue Estimates Down Somewhat From Budget Act Assumptions. The 2012-13 budget package assumed that Proposition 30 would pass—thereby temporarily levying additional personal income taxes (PITs) and sales and use taxes and depositing them to a new state fund, the EPA. Our forecast includes updated estimates concerning Proposition 30 tax receipts and the rest of the state's revenues. It also adds increased corporation tax (CT) revenues based on voters' approval of Proposition 39. For the General Fund and EPA combined, we currently project that 2011-12 revenues will be $348 million less than assumed in the 2012-13 budget package and that 2012-13 revenues will be $277 million less than assumed, for a total of $625 million less in revenues for these two fiscal years combined. The largest differences in this regard relate to the PIT and CT, as follows:

- ***Facebook Offsets Other Projected PIT Gains.*** Our updated estimate of revenues related to the initial public offering (IPO) of stock by Facebook, Inc., is lower than that assumed in the budget package—by $626 million spread across 2011-12 and 2012-13. On the other hand, our forecast

Basis for Our Projections

This forecast is not intended to predict budgetary decisions by the Legislature and the Governor in the coming years. Instead, it is our best estimate of revenues and expenditures if current law and current policies are left in place through 2017-18. Specifically, our estimates assume current law and policies, including those in the State Constitution (such as the Proposition 98 minimum guarantee for school funding), statutory requirements, and current tax policy. Our forecast projects future changes in caseload and accounts for relevant changes in federal law and various other factors.

Effects of November 2012 Voter Initiatives Included. Our forecast reflects the approval by voters of Propositions 30, 35, 36, 39, and 40 at the November 6, 2012 statewide election.

COLAs and Inflation Adjustments Generally Omitted. Consistent with the state laws adopted in 2009 that eliminated automatic cost-of-living adjustments (COLAs) and price increases for most state programs, our forecast generally omits such inflation-related cost increases. This means, for example, that budgets for the universities and courts remain fairly flat throughout the forecast period and that state employee salaries do not grow except for already-negotiated pay increases. We include inflation-related cost increases when they are required under federal or state law, as is common in health and social services programs.

Uncertainty Surrounding Federal Fiscal Policy. There is great uncertainty surrounding the federal "fiscal cliff," the combination of tax increases and spending cuts set to take place under current federal law in 2013. These policies, if left unchanged, would have a significant effect on the economy and could result in economic conditions differing materially from our forecast. As discussed in Chapter 2, our forecast makes a number of assumptions regarding the federal fiscal cliff and its effect on the California economy. In general, we assume that federal policy makers take actions to avoid virtually all major near-term effects of the fiscal cliff.

Recent Accounting Issues That Affect the State Budget Process

This box discusses two accounting issues that have risen in prominence recently: the state's revenue accrual policies and accounting practices for the state's over 500 special funds.

The State's Revenue Accrual Policies. The state commonly adjusts the prior year's ending fund balance as part of the budget process—to reflect updated information concerning spending or revenue accrual estimates. The $1.4 billion positive fund balance adjustment (preliminary and subject to change) recently reported to us by the Department of Finance is related to updated revenue accruals. In our budgetary process, accruals are used to allocate tax revenues—generally paid on a *calendar year* basis—to a particular *fiscal year*. The general idea is to assign the revenue to the fiscal year in which the economic activity producing the revenue occurred. In recent years, the state has altered its accrual policies. Some of the changes have a theoretical basis in accounting principles, but their effect has been to move more revenue collected in one fiscal year to a prior fiscal year (thereby helping to balance the state budget). The changes also affect calculation of the Proposition 98 minimum guarantee. (We discussed revenue accruals in our January 2011 publication, *The 2011-12 Budget: The Administration's Revenue Accrual Approach*.)

Section 35.50 of the *2012-13 Budget Act* institutes a new accrual method for the tax revenues generated by Propositions 30 and 39. A portion of final income tax payments paid in, say, April of one year will be accrued all the way back to the prior fiscal year (which ended ten months in the past). One effect of the change is that we will no longer have a good idea of a fiscal year's revenues until one or two years after that fiscal year's conclusion. Because the volatile capital gains-related revenues from Proposition 30 are the subject of the accrual changes, the late adjustments to revenues could total billions of dollars—much more than in the past. As a result, the chances of large forecast errors by us and the administration will increase.

We are now convinced that the problems that this new accrual method will introduce to the budgetary process outweigh its benefits. We recommend that the Legislature direct the administration to develop a simpler, logical budgetary revenue accrual system by 2015. Alternatively, to help ensure the accuracy of our forecasts and improve transparency, we recommend that the Legislature require the administration to document accruals regularly online.

Special Fund Accounting Practices. In response to this year's Department of Parks and Recreation accounting issues, the Legislature passed Chapter 343, Statutes of 2012 (AB 1487, Committee on Budget), to ensure that special fund information was presented in the Governor's budget on the same basis as that used in the Controller's budgetary accounting reports. We expect that the *2013-14 Governor's Budget* will include updated information on special fund balances in response to these requirements. Legislative committees will want to scrutinize the condition of special funds with significant discrepancies compared to prior administration reports. Decisions about when special fund loans are repaid by the General Fund could materially affect the condition of special funds in the coming years. When considering whether or not to extend repayment dates of existing loans or authorize new loans, the Legislature will want to consider: (1) whether special fund programs are meeting legislative expectations; (2) whether a General Fund loan repayment would facilitate one-time or permanent fee decreases, either immediately or over time; (3) whether existing priorities for special fund programs should be changed; and (4) the relative prioritization of General Fund and special fund activities.

of non-IPO PIT revenues is higher across these two fiscal years by $473 million. In total, PIT revenues in 2011-12 and 2012-13 are forecast to be $153 million below budget act assumptions. (Due to the state's new revenue accrual policies related to Proposition 30, we note that the books will not be closed on 2011-12 revenues until at least a year from now.)

- ***Proposition 39 Revenues Offset Lower CT Estimates.*** Estimated CT revenues in 2011-12 were $605 million below the assumption in the budget act. In keeping with recent, very weak collection trends, we also forecast that CT revenues under prior tax law will be about $403 million lower than the budget act assumption in 2012-13. These declines, however, will be partially offset by the passage of Proposition 39, which changes the method by which some multistate businesses calculate their taxable income. We estimate that Proposition 39 will increase CT revenues by about $450 million in 2012-13. In total, therefore, our forecast of CT revenues in 2011-12 and 2012-13 combined is $558 million below the amount assumed in the 2012-13 budget act.

Significant 2012-13 Budget Actions at Risk. Our forecast projects $2.7 billion in higher expenditures will contribute to a year-end deficit in 2012-13. These include budgetary erosions associated with several actions adopted in the 2012-13 budget package, including the following:

- ***RDA Savings Will Be Much Less.*** As described further in Chapter 3, the budget package assumed about $3.2 billion in General Fund savings related to the dissolution of RDAs. We estimate, however, that the savings will total about $1.8 billion less than assumed in the budget.

- ***$400 Million of Cap-and-Trade General Fund Savings Unlikely to Materialize.*** The 2012-13 budget included savings associated with the state's cap-and-trade program. Specifically, the budget package assumed that $500 million in revenues generated by the program's auctions would offset costs traditionally supported by the General Fund. Consistent with our prior estimates, our forecast projects that only $100 million of such costs could be offset by the revenues, resulting in a $400 million budgetary erosion.

- ***Healthy Families Program (HFP) Costs.*** The 2012-13 budget package included a $183 million reduction to HFP. As explained in Chapter 3, our forecast assumes the reduction will not be put in place because it would violate a maintenance-of-effort requirement under the Patient Protection and Affordable Care Act, the federal health care reform law.

- ***Wildfire-Related Costs.*** The *2012-13 Budget Act* included $92.8 million in General Fund support for emergency fire suppression activities. Due to heavy fire activity during the early part of 2012-13, CalFire has requested an additional $118 million in funding. While the federal government or local fire agencies will eventually reimburse the state for some of this funding, our forecast treats the entire amount as an increased cost because the amount of future reimbursement is unknown.

Relatively Small Budget Problem Forecasted for 2013-14

Many Factors Contribute to the 2013-14 Operating Deficit. The combination of recent spending reductions and temporary tax increases—plus improvement in the economy—has virtually eliminated the state's "structural deficit." Accordingly, we estimate that the state is poised to record a substantial operating surplus in 2012-13—which was necessary to eliminate most of the carry-in deficit related to prior years' budgetary problems. In 2013-14, however, our forecast projects a $936 million operating deficit, assuming current law policies.

Many factors contribute to the small operating deficit we forecast in 2013-14. General Fund Proposition 98 payments, for example, grow by $1.8 billion. Also, actions to achieve savings in employee compensation—including furloughs and the Personal Leave Program—expire in June 2013, consistent with current labor agreements. Combined with scheduled pay increases and higher premium costs for state employees' health care benefits, we project that employee compensation costs will increase by more than $750 million in 2013-14. We also project that General Fund debt-service costs related to infrastructure bonds will grow by $759 million in 2013-14. (These debt-service costs go up in 2013-14 primarily because the state structured its infrastructure bonds so that payments were lower in 2012-13. The state did this to accommodate the required, one-time repayment this year of a $2 billion loan from local governments, which the Legislature authorized in 2009 with its suspension of Proposition 1A [2004].)

The expiration of various one-time actions in the 2012-13 budget also contribute to the operating deficit, including about $419 million in higher expenditures for the judicial branch. We also assume that the state repays about $1.1 billion of loans to special funds, consistent with previous loan repayment schedules provided by the administration. (We note that the administration has substantial flexibility, in many cases, to delay such planned repayments.) Revenue growth of about $1.1 billion over 2012-13 partially offsets $3.7 billion in increased expenditures in our forecast.

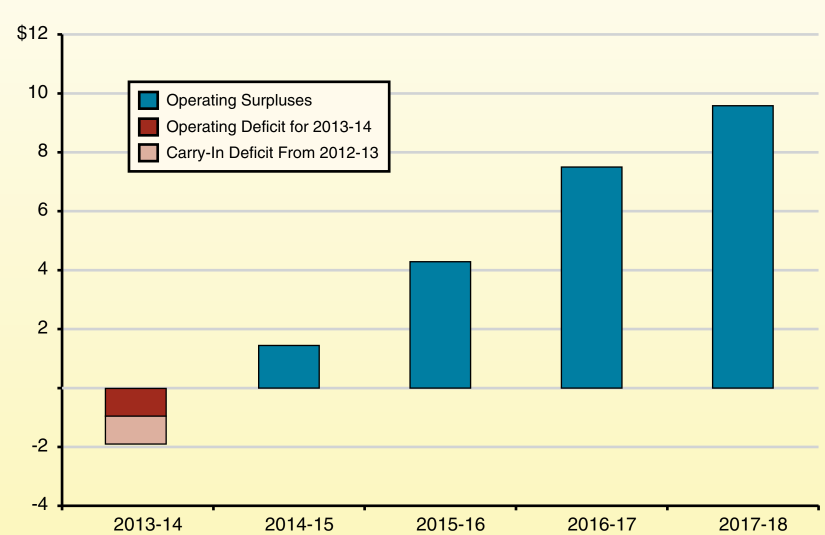
Operating Surpluses Projected Over the Next Few Years

State "In the Black" After Years of Major Operating Deficits. Under current law, General Fund and EPA expenditures are projected to grow less rapidly than revenues, given our current economic forecast. Beyond 2013-14, we therefore project growing operating surpluses throughout the forecast period. As indicated in Figure 2, our forecast shows that there could be an over $1 billion operating surplus in 2014-15, growing thereafter to an over $9 billion surplus in 2017-18. A contributing factor to the surpluses beginning in 2016-17 is the end of the "triple flip," the financing mechanism used

Figure 2

Forecasted Operating Surpluses Beginning in 2014-15

General Fund and Education Protection Account Combined (In Billions)



for the 2004 economic recovery bonds (ERBs). (Specifically, the General Fund benefits—to the tune of about $1.6 billion per year—once the ERBs are retired, which will result in higher local funding for school districts and a related decrease in state funding requirements for schools.) This outlook of significant operating surpluses differs dramatically from the severe operating deficits we have forecast in November *Fiscal Outlook* documents over the past decade.

LAO COMMENTS

Despite Positive Outlook, Caution Is Appropriate

Several Assumptions Key to Achieving Future Surpluses. Our multiyear budget forecast depends on a number of economic, policy, and budgetary assumptions that, if changed, could result in dramatically different outcomes. As discussed below, a variety of alternate scenarios would result in much smaller future operating surpluses or possibly operating deficits.

Revenue Forecast Assumes Steady Growth in the Economy and Stock Prices. Our forecast assumes steady economic growth, fueled in particular by recent encouraging data about the state's housing market and income trends. In one alternative scenario we considered—assuming the economy underperforms and state revenues grow one-third slower than forecasted—80 percent of the surplus shown in Figure 2 for 2017-18 would be eliminated, and prior fiscal years would be much more likely to have an operating deficit. Our forecast also assumes steady growth in the stock market, which results in taxable capital gains. As we have pointed out many times over the years, these gains are notoriously volatile and hard to predict. They are a key reason why tax revenue forecasts can easily be a few billion dollars lower (or higher) than projected by us or the administration in any given fiscal year.

Federal Fiscal Policy Poses Risk to Revenue Forecast. As discussed in Chapter 2, the federal fiscal cliff poses a significant risk to our economic and revenue forecast. Specifically, if the Congress and the President are unable to resolve the fiscal cliff, the economy could enter recession beginning in 2013. We examined one possible recession scenario in which state revenues were about $11 billion lower than in our forecast for 2012-13 and 2013-14 combined. This scenario obviously would also delay any potential future operating surpluses.

Forecast Assumes No Transfers to the BSA. Proposition 58 (2004) generally requires 3 percent of estimated General Fund revenues to be transferred each year to the Budget Stabilization Account (BSA), the state's rainy day fund. The state has made such transfers in the past, but the Governor has suspended the requirement annually since 2008-09 due to the state's persistent budget problems. Our forecast assumes that no transfer will be made during the forecast period. As shown in Figure 3, however, a transfer of 3 percent of General Fund revenues to the BSA beginning in 2015-16 would reduce the operating surpluses by over $3 billion per year.

Forecast Assumes No COLAs or Inflation Adjustments. Consistent with state law and recent state policy, our forecast includes no cost-of-living adjustments (COLAs) or price increases over the forecast period, except when required under federal or state law. As shown in Figure 3, if we included COLAs and price increases for state operations (including the universities and the judicial branch) each year of the forecast, operating surpluses would be around $2.1 billion lower by 2017-18.

Forecast Does Not Account for Repayment of Many Obligations. Our forecast assumes that the state initiates no additional loans from special funds to the General Fund (except those already envisioned in the 2012-13 budget plan), and that these loans are repaid when scheduled or otherwise required—generally consistent with recent repayment schedules provided by the administration (and, in some cases, with repayment deadlines included in prior budget acts). As a result, in our forecast, the $4.3 billion loan balance currently owed to special funds by the General Fund is reduced to $3.1 billion by the end of 2013-14 and $1.2 billion by the end of our forecast period in 2017-18. The Governor, however, has stated his preference to pay down this and other elements of the so-called "wall of debt" within a few years. If the Legislature and the Governor seek to repay these obligations, surpluses could be lower in some years.

Revenue Volatility and Maintenance Factor. As discussed in our May 2012 report, *Proposition 98 Maintenance Factor: An Analysis of the Governor's Treatment*, the maintenance factor approach used in building the 2012-13 budget can ratchet up Proposition 98 spending in certain situations. This ratcheting effect is most likely to occur in years with significant year-to-year increases in General Fund revenues. Because Proposition 98 appropriations in one year typically are used to calculate the minimum guarantee in the next year, a significant increase in the Proposition 98 minimum guarantee for one year also would likely increase the state's obligations in future years. Although such ratcheting does not occur in our current forecast, this situation is possible over the forecast period, particularly given the inherent volatility of PIT revenues.

Proposition 30 Tax Increases Temporary. Proposition 30 increases the sales tax rate for all taxpayers through 2016 and PIT rates on upper-income taxpayers through 2018. In 2017-18, the last fiscal year of our forecast, we estimate that the higher PIT rates will raise about $5.6 billion in additional revenues. When those taxes expire beginning in 2018-19 (outside the time period considered in our forecast), ongoing surpluses could be several billion dollars lower.

Considering Future Budget Surpluses

As noted above, there are many ways that the future operating surpluses we now project could disappear or be reduced substantially. If, however, the state's leaders choose to keep a tight rein on the budget over the next year and the economy avoids another recession over the next several years, they could experience the operating surpluses shown in Figure 2. During the 2013-2014 legislative session, lawmakers may want to begin considering how to use such potential surpluses. There are a variety of priorities for surplus funds, as described below.

Building a Reserve? As noted above, Proposition 58 generally requires that 3 percent of estimated General Fund revenues be deposited in the BSA, the state's rainy

Figure 3

Alternate Forecasts of General Fund Operating Surpluses

(In Millions, Includes Education Protection Account)

	2015-16	2016-17	2017-18
Budget Forecast			
Revenues and transfers	$111,017	$116,461	$121,627
Expenditures	106,728	108,962	112,047
Operating Surplus	**$4,289**	**$7,499**	**$9,580**
Alternate Scenarios			
Transfer 3 percent of General Fund revenues to BSA[a]	-$3,331	-$3,494	-$3,649
Grow state operations and judiciary budget by inflation	-1,189	-1,624	-2,140
Subtotals	**-$4,520**	**-$5,118**	**-$5,789**
Alternate Scenario Operating Deficit/Surplus	**-$231**	**$2,381**	**$3,791**

[a] Calculates transfer amount as a percentage of combined General Fund and Education Protection Account revenues. Up to 50 percent of the funds transferred to the BSA could be used to repay ERBs. Our forecast assumes ERB debt is retired in 2016 without any transfers from the BSA.

BSA = Budget Stabilization Account; ERB = Economic Recovery Bonds.

day fund. Beginning in 2015-16, we project potential surpluses that would accommodate such a transfer. Within the next few years, we advise the Legislature and the Governor to begin building the reserve envisioned by Proposition 58, which could buy time to deal with the budgetary problem accompanying the next economic downturn. While our forecast does not assume such a downturn, one could easily materialize by 2018. For this reason, we favor BSA deposits as one priority for the use of available resources over the next few years.

Paying Down Budgetary Liabilities? As discussed above, our forecast assumes that special fund loans to the General Fund are paid back consistent with recent repayment schedules provided by the administration and that $1.2 billion of such loans remain outstanding by the end of 2017-18. The state could choose to pay down these loans faster. Paying down the loans faster would relieve the General Fund of some additional interest costs, allow special funds to either expand programs or reduce fees, and serve as a possible additional budget cushion for the General Fund during future recessions (since special fund balances available to be borrowed at that time could be larger). Other elements of the wall of debt (such as addressing the backlog of payments related to local government mandates) also could be funded from any surpluses that materialize. Still, other elements of the wall of debt could be retired with funds made available as part of the Proposition 98 minimum guarantee each year.

Addressing Retirement Liabilities? Unfunded liabilities of the state's key pension systems—the California Public Employees' Retirement System, the California State Teachers' Retirement System (CalSTRS), and the University of California (UC) Retirement Plan—and the retiree health programs serving state government (including the California State University system) and UC represent funds not currently set aside to pay for benefits already earned by current and past public employees. While this year's pension legislation reduces significantly the net employer cost of benefits that will be earned by future public employees, these unfunded liabilities must still be addressed. As such, one possible use for potential surpluses is paying down these significant liabilities, which total over $150 billion.

A key priority of the state in this regard probably should be a funding plan to address CalSTRS' unfunded liabilities. Additional funding from the state, districts, and/or teachers of over $3 billion per year (and growing over time) likely will be required to keep CalSTRS solvent and retire its unfunded liabilities over the next several decades. Under a resolution approved by both houses of the Legislature this year, CalSTRS will submit several proposals in February 2013 for how to better fund the system in the future. Assisting UC in rebuilding the funding status of its pension system is another possible priority for surplus funds. Addressing these unfunded liabilities sooner likely would save state and local funds, compared to the costs of funding them down the road. This is because contributing funds to the pension systems sooner means that the systems can invest the funds and generate investment returns earlier than would otherwise be the case.

Selectively Restoring Cuts? The state has reduced spending in recent years in most areas, including health and social services programs, schools, universities and community colleges, the courts, and state administration. The state has also generally not provided COLAs or inflation adjustments for most of these programs. A key decision to consider for possible budget surpluses will be to what extent to use them to restore some of these cuts. (In Chapter 3 of this report, for example, we discuss potential priorities for the state in the use of increased Proposition 98 school funding over the next few years.)

Investing in Infrastructure? Another option for the use of potential surpluses would be investment in the state's infrastructure. Our forecast, for example, assumes no additional bond authorizations for infrastructure even though several programs, such as K-12 and higher education, have exhausted most of their existing bond authority. Our forecast also does not include bond payment costs related to the $11 billion water bond now scheduled for the November 2014 statewide ballot. In our August 2011 report, *A Ten-Year Perspective: California Infrastructure Spending*, we noted various major infrastructure funding needs for the state, including those related to aging infrastructure and a growing backlog of deferred maintenance.

To effectively assess the enormous variety and complexity of the state's infrastructure needs, the state needs a well-defined process for planning and financing projects. Unfortunately, the state does not have such a process. Particularly in the event that the state pursues a new infrastructure investment program in the coming years, a new approach to planning and financing it is needed, as we discussed in the August 2011 report.

Conclusion

The state's economic recovery, prior budget cuts, and the temporary taxes provided by Proposition 30 have combined to bring California to a promising moment: the possible end of a decade of acute state budget challenges. If a steady economic recovery continues and the Legislature and the Governor keep a tight rein on state spending in the next couple of years, there is a strong likelihood that the state will have operating surpluses in subsequent years. The state has many choices for what to do with these surpluses. We advise the state's leaders to begin to build the reserve envisioned by Proposition 58 as soon as possible. Beyond building a reserve, the state must develop strategies to address several substantial liabilities that will have to be paid—most notably, unfunded retirement liabilities and outstanding loans from the state's special funds to the General Fund.

Chapter 3

Expenditure Projections

In this chapter, we discuss our expenditure estimates for 2011-12 and 2012-13, as well as our projections for 2013-14 through 2017-18—both for the General Fund and the Education Protection Account (EPA) created by Proposition 30. Figure 1 (see next page) shows our projections of General Fund expenditures for major programs. Below, we discuss estimated General Fund spending for 2012-13 and expenditure trends in the forecast period. Thereafter, we discuss our expenditure projections for individual program areas.

2012-13 Outlook

We estimate that General Fund expenditures in 2012-13 will total roughly $94 billion, about 7.9 percent higher than in 2011-12. Higher Proposition 98 spending—in part due to the passage of Proposition 30 and the resulting increase in the minimum guarantee—and repayment of the Proposition 1A loan account for most of this change. We estimate that General Fund expenditures in 2012-13 will be about 2.9 percent higher than the amount assumed in the 2012-13 budget package, largely due to lower-than-expected savings related to the dissolution of redevelopment agencies (discussed later in this chapter).

Expenditure Growth During the Forecast Period

Moderate Growth Beginning in 2012-13. Our forecast projects that General Fund spending will increase an average of 3.6 percent annually between 2012-13 and 2017-18. Growth in Medi-Cal (6.8 percent) drives this increase, while growth in Cal Grants and debt-service costs (12.6 percent and 7.8 percent over the forecast period, respectively) also contribute significantly. General Fund expenditures to fund the judicial branch are assumed to grow by 10.7 percent over the forecast period—almost entirely the result of other revenues replacing General Fund support in 2012-13. Caseload and prison population decreases contribute to declining spending in our forecast for California Work Opportunity and Responsibility to Kids (CalWORKs) and the state's prison system, respectively. (In the latter instance, the data in the figure for the California Department of Corrections and Rehabilitation [CDCR] does not consider already-negotiated pay and other compensation changes for some CDCR employees, which are included as a separate item under "Other programs/costs.")

EDUCATION

Overview of State Funding for Education. State funding supports preschool; elementary and secondary education (commonly referred to as K-12 education); the California Community Colleges; the California State University (CSU); the University of California (UC); Hastings

Figure 1

Projected General Fund Spending for Major Programs

Includes Education Protection Account (Dollars in Millions)

	Estimates		Forecast					Average Annual Growth From 2012-13 to 2017-18
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	
Education								
K-14—Proposition 98	$33,089	$38,648	$40,470	$43,399	$45,797	$46,015	$46,848	3.9%
QEIA payments	—	—	228	181	—	—	—	—
CSU	1,937	1,940	2,065	2,065	2,065	2,065	2,065	1.3
UC	2,072	2,166	2,291	2,291	2,291	2,291	2,291	1.1
Student Aid Commission	1,486	684	751	860	969	1,133	1,237	12.6
Child care	1,031	751	717	745	777	821	884	3.3
Health and Human Services								
Medi-Cal	15,461	14,581	15,746	17,116	17,837	18,918	20,285	6.8
CalWORKs	992	1,565	1,713	1,703	1,551	1,455	1,392	-2.3
SSI/SSP	2,720	2,770	2,827	2,886	2,945	3,006	3,069	2.1
IHSS	1,711	1,697	1,839	1,894	1,963	2,037	2,116	4.5
DDS	2,536	2,652	2,781	2,873	2,969	3,069	3,173	3.7
Department of State Hospitals	1,290	1,295	1,357	1,398	1,421	1,434	1,448	2.2
Other major programs	1,644	1,902	1,406	1,400	1,499	1,538	1,573	-3.7
Corrections and Rehabilitation	7,772	8,509	8,397	8,244	8,195	8,239	8,275	-0.6
Judiciary	1,226	726	1,192	1,209	1,208	1,208	1,209	10.7
Proposition 1A loan costs	91	2,095	—	—	—	—	—	—
Infrastructure debt service[a]	5,097	5,025	5,825	6,436	6,785	7,090	7,328	7.8
Other programs/costs	6,926	6,945	8,074	8,188	8,457	8,644	8,854	5.0
Totals	**$87,082**	**$93,950**	**$97,679**	**$102,889**	**$106,728**	**$108,962**	**$112,047**	**3.6%**
Percent Change		7.9%	4.0%	5.3%	3.7%	2.1%	2.8%	

[a] Does not include General Fund debt-service costs of lease-revenue bonds funded through the California Community College portion of Proposition 98 funding. These costs total $64 million in 2012-13.

QEIA = Quality Education Investment Act; IHSS = In-Home Supportive Services; and DDS = Department of Developmental Services.

College of the Law; the Cal Grant program, which provides students with financial aid to help with college costs; and subsidized child care for eligible low-income families.

Proposition 98

Proposition 98 "Minimum Guarantee" for Schools and Community Colleges. State budgeting for schools and community colleges is governed largely by Proposition 98, passed by voters in 1988. The measure, modified by Proposition 111 in 1990, establishes a minimum funding requirement, commonly referred to as the minimum guarantee. Both state General Fund (including EPA) and local property tax revenue apply toward meeting the minimum guarantee. In addition to Proposition 98 funding, schools and community colleges receive funding from the federal government, other state sources (such as the lottery), and various local sources (such as contributions from community-based organizations, fees for school meals and transportation, and parcel taxes).

Calculating the Minimum Funding Guarantee. The Proposition 98 minimum guarantee is determined by one of three tests set forth in the State Constitution. These tests are based on several inputs, including changes in K-12 average daily attendance, per capita personal income, and per capita General Fund revenue. Though the calculation of the minimum guarantee is formula-driven, a supermajority of the Legislature can vote to suspend the formulas and provide less funding than the formulas require. This happened in 2004-05 and 2010-11. In some cases, including as a result of a suspension, the state creates an out-year obligation referred to as a "maintenance factor." The state is required to make maintenance factor payments when year-to-year growth in state General Fund revenues is relatively strong, such that increases in education funding are accelerated.

Current-Year Proposition 98 Adjustments

Minimum Guarantee $193 Million Above Budget Estimates. Our revised current-year estimate of the minimum guarantee is $53.8 billion—$193 million higher than the guarantee as estimated at the time of budget enactment. The minimum guarantee changes as a result both of updating revenue estimates and adding in the revenue generated by the passage of Proposition 39, which raises corporation tax revenues beginning in 2013. Our lower projections of revenues decrease the minimum guarantee by $249 million. This decrease is more than offset, however by an increase in the minimum guarantee of $443 million due to the passage of Proposition 39 (reflecting virtually all of the revenue raised by the measure in the first half of 2013). Our forecast assumes the state appropriates an additional $193 million in the current year to meet the higher minimum guarantee.

Lower Estimates of Redevelopment Revenues Also Result in Higher General Fund Costs. In addition to higher costs incurred due to the increase in the minimum guarantee, we estimate Proposition 98 General Fund costs will be $1.6 billion higher in 2012-13 due to our revised local property tax revenue estimates. (Lower property tax revenues require the state to backfill schools and community colleges with additional General Fund dollars.) As we discuss later in this report, our forecast assumes substantially less property tax revenue will be transferred to school districts and community colleges from former redevelopment agencies in 2012-13—$1.8 billion less than assumed in the adopted budget. These higher costs from lower-than-anticipated redevelopment revenues are somewhat offset by higher estimates of baseline property tax revenues (up by $184 million).

Proposition 98 Forecast

Additional Funding in 2013-14, With Steady Increases Thereafter. As shown in Figure 2 (see next page), we project Proposition 98 funding will be $55.8 billion in 2013-14—$2 billion higher than the current-year level. In addition to this growth, another $2.2 billion in ongoing funding would be freed up within the Proposition 98 base. This is because the 2012-13 budget plan dedicated these funds to a one-time purpose (paying down K-14 deferrals). As a result of the growth in the guarantee and freed-up funding, a total of $4.2 billion in additional resources would be available in 2013-14. In 2014-15 and 2015-16, we project Proposition 98 increases of about $3 billion annually. Increases would be more modest in 2016-17 and 2017-18, due in part to the expiration of the temporary sales tax increases approved in Proposition 30.

Major Proposition 98 Issues

Many Competing Spending Priorities. As described above, during the coming five years, schools and community colleges are likely to experience significant increases in funding. In choosing how to allocate these funding increases, the Legislature will face many competing priorities. As shown in Figure 3 (see next page), the state has almost $13 billion in

Figure 2

Proposition 98 Forecast

(Dollars in Millions)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Minimum Guarantee						
General Fund	$38,648	$40,470	$43,399	$45,797	$46,015	$46,848
Local property tax	15,140	15,303	15,314	16,053	18,300	19,684
Totals	**$53,788**	**$55,773**	**$58,713**	**$61,850**	**$64,316**	**$66,532**
Year-to-Year Change in Guarantee						
Amount	$6,872	$1,985	$2,940	$3,136	$2,466	$2,217
Percent change	14.6%	3.7%	5.3%	5.3%	4.0%	3.4%
Maintenance Factor Obligations						
Maintenance factor created/paid (+/-)	-$3,070	$350	-$1,220	-$517	$278	$457
Outstanding maintenance factor	7,732	8,417	7,517	7,336	7,940	8,726
Key Factors						
Operative Proposition 98 "Test"	1	3	2	2	3	3
K-12 average daily attendance	0.34%	-0.07%	-0.24%	-0.13%	0.01%	0.01%
Per capita personal income (Test 2)	3.77	4.34	3.80	4.60	4.43	4.15
Per capita General Fund (Test 3)[a]	10.94	3.69	6.67	6.04	3.98	3.44
K-14 COLA[b]	3.24	1.66	1.85	2.10	2.28	2.44

[a] The Test 3 factor consists of the year-to-year increase in per capita General Fund revenues plus 0.5 percent.
[b] Does not affect calculation of minimum guarantee.
COLA = cost-of-living adjustment.

outstanding one-time education obligations. In addition to retiring these one-time obligations, the Legislature will also be interested in building up base ongoing support for schools and community colleges, particularly given the cuts made to education programs in recent years. In considering how best to build up the base, the Legislature likely will want to weigh the trade-offs among: (1) restoring prior-year base reductions; (2) making up foregone cost-of-living adjustments (COLAs); (3) providing a budget-year COLA; (4) equalizing per-pupil funding; and (5) addressing the end of "categorical flexibility" provisions,

Figure 3

Paying Down One-Time Education Obligations

Estimated 2012-13 Year-End Obligations (In Millions)

Obligation	Description	Effect on Districts of Paying Down	Amount
Revenue limit/ apportionment deferrals	Reflects late state payments for schools ($7.4 billion) and community colleges ($801 million).	Benefits districts that rely more heavily on state funding.	$8,206
Education mandates	Reflects unpaid prior-year mandate claims for schools ($3.8 billion) and community colleges ($355 million).	Benefits districts that participate in state mandate reimbursement process and file relatively high-cost claims.	4,115
Emergency Repair Program	Funds school facility projects deemed critical for ensuring public health and safety.	Benefits certain low-performing schools.	462
Total			**$12,783**

including potentially transitioning to a new K-12 weighted student formula. Whereas the state has made no statutory commitment to restore base apportionment cuts or make up foregone COLAs for community colleges, it has created a corresponding statutory commitment for schools—known as the "revenue limit deficit factor." Of the $9.2 billion revenue limit deficit factor, $3.7 billion is associated with base reductions in school funding and $5.5 billion is associated with foregone COLAs. With regards to a new COLA, we estimate providing a 1.66 percent COLA to all school and community college programs in 2013-14 would cost about $850 million. The cost of equalizing per-pupil funding or implementing a weighted student formula would depend on the way the initiatives are designed and implemented.

Funding Sufficient to Pay Down Existing Obligations and Build Up Base Ongoing Support. Over the coming five years, we project that funding increases likely will be sufficient to retire all the state's outstanding one-time education obligations while simultaneously building up ongoing funding significantly. To ensure outstanding one-time obligations are retired during this period of economic recovery, we recommend the Legislature build a plan that steadily pays down these obligations, with the obligations completely retired by the end of 2017-18 (at which time Proposition 30 income tax increases will be triggering off). Paying down these obligations is important for constitutional, legal, and fiscal reasons. Paying outstanding mandate claims is a constitutional requirement, the Emergency Repair Program is a statutory commitment relating to a court-approved settlement, and eliminating deferrals/making state payments on time is good fiscal practice. Because of the one-time nature of these obligations, the Legislature could retire them even as it builds up ongoing base support.

Carefully Consider How Best to Build Up Base Support. As indicated earlier, the Legislature has many options to consider when deciding how to allocate ongoing funding increases for schools and community colleges. The trade-offs entailed in choosing among all the different options are important because different designations send different messages and have different distributional effects on districts. For example, designating funds for restoring prior-year cuts likely would result in many districts hiring additional staff (and potentially reducing class size) whereas designating funds for foregone or new COLAs likely would result in many districts increasing teacher salaries. Designating funds for uniform COLAs, however, would perpetuate existing inequities in per-pupil funding whereas designating funds for equalization would help remedy these inequities. (For instance, Proposition 98 general purpose per-pupil funding, consisting of revenue limits and now flexible categorical funding, was roughly $1,400 higher in 2011-12 at San Jose Unified than Fremont Unified—two equally sized districts located relatively close to each other.) These same basic trade-offs also apply if the Legislature were to decide to allocate all or a portion of any funding increase using a weighted student formula rather than existing funding formulas. For example, the Legislature might set base per-student funding under the new formula at the statewide average rate assuming restoration of recent base reductions to revenue limits and then use any funding increase to equalize per-pupil rates to this level.

Caution Against More Categorical Programs. Based on current state law, categorical flexibility provisions are set to expire at the end of 2014-15. These provisions allow school districts to use the funds associated with about 40 categorical programs for any educational purpose. (The flexibility provided to the K-3 Class Size Reduction program is set to expire a year earlier—at the end of the budget year.) Recent surveys we conducted indicate that most school districts have redirected the bulk of these now flexible categorical dollars toward supporting core programs. Moreover, survey responses indicate that the vast majority of districts believe categorical flexibility has facilitated developing and balancing budgets as well as made dedicating resources to local education priorities easier. These findings suggest that resurrecting pre-existing categorical programs likely would be counterproductive and potentially unworkable for districts. As part of his weighted student formula initiative, the Governor also has expressed interest in removing many programmatic requirements. Furthermore, a plethora of reports released throughout the last decade by several policy groups have concluded that the state's existing categorical funding system has fundamental problems. All this suggests that districts likely would benefit little, if at all, from the state imposing additional programmatic requirements on them.

CSU and UC

The state has two public four-year university systems. The CSU, with 23 campuses and about 430,000 students, primarily provides instruction for undergraduate and master's students. The UC, with ten campuses and about 240,000 students, is a comprehensive research university offering instruction through the doctoral level. Both systems receive support for their core instructional programs primarily from a combination of state funds and student tuition revenue.

Near-Term Outlook. For 2012-13, we estimate General Fund operating expenditures of $1.9 billion at CSU and $2.2 billion at UC. For 2013-14, we estimate expenditures will increase at each system by $125 million. Already authorized in the state's budget plan, these augmentations were contingent on the passage of Proposition 30 and require the universities to maintain tuition in 2012-13 at the same level as 2011-12. We assume the augmentations occur, as the systems indicate they plan to abide by this requirement. (In the case of CSU, which already approved and implemented a tuition increase, the university has rescinded the increase and will refund students accordingly.) Though unlikely to increase tuition in 2012-13, the universities indicate they are considering increasing tuition for 2013-14. This would not affect their receipt of the $125 million augmentations.

State Expenditures on Universities Assumed to Be Flat Throughout Rest of Forecast Period. Our forecast assumes that the universities' General Fund operating expenditures will continue to be the same each year through 2017-18. This projection relies upon three main assumptions. First, we assume the state does not provide COLAs for the universities, consistent with state law regarding no automatic COLAs for most state programs. Second, although we recognize additional student demand likely exists at CSU as a result of recent reductions in course offerings, we assume no enrollment growth at either CSU or UC given that the state has not consistently funded enrollment growth in recent years. Moreover, our demographic projections show that growth in the traditional college-age population will slow and then become negative by the end of the forecast period. Though future enrollment demand at the universities depends on many different economic and social forces, we assume that any increases in college participation rates generally would be canceled out by these projected demographic declines. Finally, our forecast does not assume any additional state expenditures for other cost increases at the universities—such as expected increased costs for UC's pension plan. This is because the state has no specific funding obligation for this purpose.

Projected Expenditures Sensitive to Underlying Assumptions. The Legislature has significant discretion over university expenditures, unlike many other areas of the state budget that are constrained by constitutional or federal requirements. At the

The COMMUNITY COLLEGE UPDATE

Volume 25 For Publication Date: November 21, 2012 No. 23

Legislative Analyst Forecasts $4.2 Billion for Proposition 98 in 2013-14

On Wednesday, November 14, 2012, Legislative Analyst Mac Taylor released his office's *California Fiscal Outlook* report, which provides an update of the condition of the current year budget and forecasts state revenues and expenditures through 2017-18. The report concludes that "the state's economic recovery, prior budget cuts, and the additional, temporary taxes provided by Proposition 30 have combined to bring California to a promising moment: the possible end of a decade of acute state budget challenges." For K-12 education and community colleges, the report identifies $4.2 billion in new revenue under Proposition 98 for 2013-14, $2 billion from growth in the minimum funding guarantee, plus $2.2 billion that is freed up from the one-time buy down of apportionment deferrals in 2012-13.

Beyond 2013-14, the Legislative Analyst's Office (LAO) projects significant and growing operating surpluses, which could reach $9 billion in 2017-18, provided the economy continues to expand and state spending is restrained.

Highlights from the report include the following projections:

- For 2012-13, the budgeted reserve of $948 million will be depleted, and the state will instead end the current year with a deficit of $943 million. This shortfall is attributed to: (1) a shortfall in the estimated revenues from the dissolution of redevelopment agencies (RDAs) of $1.8 billion, (2) additional program expenditures of $0.9 billion, (3) a current-year revenue shortfall of $277 million and prior-year shortfall of $348 million, and (4) a positive adjustment of the 2010-11 fund balance of $1.4 billion.
- For 2013-14, expenditures will outpace revenues by $936 million, resulting in a projected $1.9 billion deficit by June 30, 2014.
- Beyond 2013-14, state revenue growth improves significantly, increasing at an average annual rate of 5.9% through 2017-18. Over the same period, expenditure demands are projected to increase at an average annual rate of 3.5%, assuming current law requirements. (Note: The expenditure forecast does not include cost-of-living adjustments (COLAs), which were repealed for most programs.) These projections result in the state moving from an operating deficit of $936 million in 2013-14 to an operating surplus of $1.4 billion in 2014-15. The operating surplus increases to over $9 billion by 2017-18.

The LAO, however, cautions that there are a number of assumptions and risks to their forecast, including:

- The revenue forecast assumes steady economic growth and rising stock prices.
- Congress and the President resolve the impending "fiscal cliff" and avoid full implementation of the higher federal tax rates and spending cuts that are scheduled to occur in early 2013.
- The forecast assumes no General Fund revenue transfers to the State Budget Stabilization Account, otherwise known as the "rainy day fund," called for by Proposition 58 (2004), and

- The forecast does not assume repayment of numerous special fund loans or other obligations.

For K-14 education under Proposition 98, the LAO report projects that the minimum funding guarantee for the current year will increase $193 million to $53.8 billion, due primarily to revenue adjustments related to the passage of Proposition 39, which raised taxes on out-of-state corporations. This compares to the current-year-funded Proposition 98 level of $53.6 billion.

While the LAO identifies a 2012-13 shortfall of $1.8 billion related to the dissolution of RDAs, which the office notes has the potential to be even greater, this loss does not affect funding for K-12 schools or community colleges. Instead, these funds pass through local educational agencies as property taxes, offsetting the state's funding obligation on a dollar-for-dollar basis. Therefore, any shortfall in RDA revenues will be made up from the General Fund, keeping the Proposition 98 funding level unchanged.

For the budget year, the LAO projects an increase in the minimum funding guarantee of $2 billion to $55.8 billion. This compares favorably to the $1.3 billion increase projected by the Administration when the current-year Budget was signed in June 2012. The LAO concludes that the increase in Proposition 98, coupled with $2.2 billion in ongoing funding freed up because of the one-time buy back of deferrals in 2012-13, provides $4.2 billion in additional resources in 2013-14.

The report notes that providing a 1.66% COLA to K-12 schools and community colleges would cost $850 million in 2013-14. Our latest School Services of California, Inc., "Dartboard" projects a 2% statutory COLA for the budget year, which would cost $1.024 billion for K-14 education utilizing the LAO's figures. Therefore, the projected $4.2 billion in additional ongoing funds would be sufficient to fully fund the statutory COLA, provide some restoration funding and fund a subsequent round of deferral buy down if the LAO's projections are accurate.

The LAO's long-term forecast shows significant growth in Proposition 98 through 2017-18. In 2014-15, the minimum guarantee grows 5.3%, providing almost $3 billion in additional funds. By 2017-18, the minimum guarantee is expected to reach $66.5 billion, an average annual growth rate of 4.3% from the revised current-year level.

Finally, the report identifies almost $12.8 billion in one-time "education obligations," including $8.2 billion in apportionment deferrals and $4.1 billion in education mandates. The LAO advises the Legislature to build a plan that pays down these obligations in recognition of the limited term funding provided by Proposition 30, which temporarily raises the sales tax and income tax rates.

The full report can be obtained here.

—Robert Miyashiro, Jeff Bell, and Michelle McKay Underwood

posted 11/15/2012

SANTA ANA COLLEGE

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

Santiago Canyon College

2012-2013 Budget Update

Board of Trustees Meeting
November 13, 2012

State Budget Update

- Proposition 30 passed by voters on the November 6th election!!!
- Education avoids major mid-year Trigger cuts!!!

State Budget Update

- State Budget was approved by Legislature on Friday June 15, 2012
- Assumed November 6, 2012 tax measure would pass
  - Additional taxes were included in state budget act
- RSCCD 2012-2013 Adopted Budget
  - Also assumed November tax measure would pass

State Budget Update

- Education Protection Account (EPA) formed with passage of Prop 30 for the duration of temporary tax increases
- Prop 98 share of new taxes under Prop 30 will be deposited into EPA Account
- Funds restricted under EPA
  - No administrative salaries
  - No administrative costs
  - Separate annual audit
  - Public hearings on use of funds
- Regulations TBD
- Districts won't know how much in EPA until June 20th

State Budget Update

- Prop 30 to provide $209 million more for community colleges
  - $159 million – partial deferral buy down
    - RSCCD = approximately $5 million of $25 million current deferrals
    - Partially buys down state IOU's
    - No new money for spending
  - $50 million – growth/restoration
    - RSCCD = approximately $1 million
  - Approximately 0.89% restoration of funded FTES
- No COLA (cost of living allowance)
  - Fifth year in a row

RSCCD Budget Impact

- Opportunity to earn 0.89% restoration for funded FTES
  - Campuses are currently approximately 2.5% over funded FTES base
  - Therefore, 0.89% restoration funds have already been earned
    - No need to spend more to achieve the funds

RSCCD Budget Impact

- RSCCD 2012-2013 Adopted Budget deficit spends by approximately $7 million
- Restoration funds will reduce deficit spending to approximately $6 million in the current fiscal year
  - Without additional offsetting costs

2012-2013 Budget Concerns

- EPA a Restricted or Unrestricted Program?
  - 50% Law implications
- Are EPA revenue expectations overstated?
  - 25% estimate - RSCCD = $5.3 million loss
  - 10% estimate - RSCCD = $2.1 million loss
  - We won't know until June 20th
- Property tax shortfalls?
  - Will RDA additional funds materialize?
    - Will State have the funds to backfill?
  - Assessed Valuation (AV) overstated?
  - Negative ERAF?
- Student fee shortfalls?
  - Statewide vs. district

STATE BUDGET UPDATE

CCLC ANNUAL CONVENTION, LOS ANGELES, NOVEMBER 16, 2012

THERESA TENA, DIR FISCAL POLICY CCLC AND
DAN TROY VC FISCAL, CHANCELLOR'S OFFICE

PRESENTATION

- PROPOSITION 30
- LAO FISCAL OUTLOOK
- CURRENT YEAR: SHIELDS AND THREATS
- ELECTION RESULTS AND BUDGET
- NEXT STEPS

PROPOSITION 30

- BALLOT MEASURE PASSED!!!!
- EDUCATION PROTECTION ACCOUNT (EPA) DETAILS
- DECISIONS TO BE MADE

PROPOSITION 30

- PASSAGE AVERTS $338 M OF WORKLOAD REDUCTION
- BUDGET PREMISED ON PASSAGE - $210 M OF RESOURCES ($159 M DEFERRAL BUY DOWN; $50 M ENROLLMENT RESTORATION)
- REVENUES ALREADY “WEAVED” THROUGH CCC BUDGET

PROPOSITION 30

- EDUCATION PROTECTION ACCOUNT (created by Prop 30)
  - Timing of revenue disbursement
  - Basis for disbursement
  - Restrictions / Reporting Requirements
  - How are the funds to be recorded?

PROPOSITION 30

- **TIMING OF DISBURSEMENT IN THE FIRST YEAR (12/13) WILL MAKE CASH FLOW EXTREMELY CHALLENGING**
  - MANAGE GF, PTAX, $801 DEFERRAL, AND EPA BALLOON PAYMENT
- OUT YEAR SCO DISTRIBUTES QUARTERLY

PROPOSITION 30

- 12/13 DISBURSEMENT FOR CCC $855 M – ALL IN JUNE
- 13/14 SCO DISTRIBUTES QUARTERLY
  - AMOUNT REVEALED PRIOR TO ENACTMENT OF BUDGET (JAN 10?)
  - 25% IN SEPT., DEC., MAR., JUN
- SCO WILL CONDUCT A "TRUE UP" TWO YEARS AFTER – PROCESS UNKNOWN

PROPOSITION 30

- BASIS FOR DISBURSEMENT
  - METHODOLOGY CONSISTENT WITH RECENT DEFERRAL CHANGE PROPOSED
  - BY USING TOTAL COMPUTATIONAL REVENUE IT WILL “SMOOTH” OUT THE SWINGS FROM BEING A HIGH REVENUE GF DISTRICTS VS HIGH REVENUE PROPERTY TAX DISTRICT
  - MINIMUM ALLOCATION TO BASIC AID $100 PER FTES

PROPOSITION 30

- RESTRICTIONS/REPORTING REQUIREMENTS
- Proceeds shall NOT be used for salaries or benefits of administrators or any other administrative costs
- Districts must publish on their web site an accounting of how funds were spent
- Minimum allocation of $100 per FTES – Basic Aid districts receive an allocation of GF

PROPOSITION 30

- Education Protection Account
  - Prohibits revenues to be spent on "administrative costs"
  - Restricted vs. Unrestricted
    - Measure does NOT contain "supplant" or "supplement" language
  - Time certain expiration of revenue

LAO FISCAL OUTLOOK

- STRUCTURAL SHORTFALL
- PROPOSITION 98
- REDEVELOPMENT
- PROPERTY TAXES

LAO FISCAL OUTLOOK

- STRUCTURAL SHORTFALL
  - 13/14 LAO PROJECT $1.9 BILLION
    - Comparison – when Gov Brown presented his 2011-12 proposed budget in Jan 2011 the structural shortfall was $26.6 billion

LAO FISCAL OUTLOOK

- PROPOSITION 98
  - "a tale of two budgets" – Prop 98 GF vs Non 98 GF
  - 2013/14 Prop 98 provides additional funding …"steady increases thereafter"…..
  - 2013/14 Non Prop 98 GF ED programs (UC/CSU)– essentially flat for the year and the 5 year projection

LAO FISCAL OUTLOOK

- PROPOSITION 98 – CURRENT YEAR
  - Current Year Prop 98 increase as a result of passage of Prop 39 $193 M – CCCs share roughly $21 M
  - The Governor will propose a plan to spend these CY resources when he proposes his 13/14 budget in January

LAO FISCAL OUTLOOK

- PROPOSITION 98 - BUDGET YEAR
- Estimated P-98 statewide $1.9 B; for CCCs $217 M
- Remember buying down deferrals has a lasting impact…ongoing funding freed up in 2013/14 equal to the amt of deferral buy down in 12/13 ($159 M)
- Estimate CCC Prop 98 amount $376 M
- NOTE: GOV ORIGINAL PROPOSAL FOR PROP 30 REVENUE – BUY DOWN THE "WALL OF DEBT"

LAO FISCAL OUTLOOK

- REDEVELOPMENT OVERESTIMATED
- 2012/13 BUDGET PREMISED ON RECEIPT OF $3.2 B FROM RDA
  - LAO Projects the estimate will be $1.8 BILLION SHORT – CCC's share $200 M

LAO FISCAL OUTLOOK

- PROPERTY TAXES
  - END OF FORECAST PERIOD ASSESSED VALUATION TO GROW FASTER FOR K-12 AND CCC's
    - ED BEGINS TO SEE BENEFIT FROM RDA ELIMINATION
    - RETIREMENT OF PROP 58 BONDS FREES UP PTAX RESOURCES NOW USED TO SERVICE DEBT
  - INCREASED P-TAX TRANSLATES INTO LESS GENERAL FUND NEEDED FOR K-14 SINCE P-TAXES ACT AS AN OFFSET TO GF

LAO FISCAL OUTLOOK

- FOCUS ON CY & BY PREDICTIONS
- OUT YEAR PREDICTIONS VIEW WITH CAUTION
  - FORECAST PERIOD 2008/09 – 2012/13. Projected $2.5 B available over baseline in 12/13 (which assumed COLA and growth over the entire forecast period!)
  - Actual General Fund Revenue Perspective:
    - 2007/08 GF $102.6 Billion (before the "revenue reset")
    - 2012-13 (even with $6 billion of Prop 30 proceeds!) GF $95.6 Billion

CURRENT YEAR: SHIELDS

- SCO NOV 9 PRESS RELEASE: REVENUES UP OVER $200 M FROM BUDGET ACT PROJECTIONS (4.4%)

CURRENT YEAR: THREATS

- STATE AND LOCAL REVENUE SHORTFALLS (P-tax, Fees, EPA)
- REDEVELOPMENT
  - LARGE DEFICIT EXPECTED @P1
  - RDA EARLY TERMINATION

ELECTION RESULTS AND THE BUDGET

- Legislature
- Post election the composition of each house has changed
  - 40 State Senators
    - Democrats: 28 (supermajority)
    - Republicans: 12
  - 80 State Assembly members
    - Democrats: 54 (supermajority)
    - Republicans: 26

ELECTION RESULTS AND THE BUDGET

- Statewide ballot measures ONLY require a simply majority (50%) plus one vote to be approved and take effect the day after the election
- Local measures which have NOT been specifically excluded (i.e. 2001 Prop 39) require a 66.7%

ELECTION RESULTS AND THE BUDGET

- Impact of the lowering the 2/3 vote threshold for facilities bonds
  - Nov 2012 election – 106 facilities bonds on the ballot: 85 passed. Passed rate of 80%.
- Prior to 2001, passage rate of local facilities bonds 50% to 60%; post Prop 39 passage rate of 80%

ELECTION RESULTS AND THE BUDGET

- November 2012 results Parcel Taxes
- Statewide 26 parcel taxes/15 passed 60% passage rate
- Community Colleges
  - San Francisco $79 rate 8 year 72.5%
    - Estimated $14 M
  - Contra Costa $11 rate 6 year 65.4%
  - Chabot-Las Positas $28 rate 6 year 61.58
    - Estimated $5.6 M

ELECTION RESULTS AND THE BUDGET

- MANAGE EXPECTATIONS – 12/13 is essentially a "rollover" budget
- Day after election – UCB students protest want to have tuition roll backs
- Clamor locally to restore classes

ELECTION RESULTS AND THE BUDGET

- RECENT HISTORY
- Outright base reductions (apportionment $448 M & categoricals ~ $300 M)
- Foregone COLA (2008/09 to 2012/13)
- Foregone Growth
- UNKNOWN WANT LIST

ELECTION RESULTS AND THE BUDGET

- MANAGE EXPECTATIONS
- GOVERNOR BROWN:
  - Zen Mantra: “Desires are endless. I vow to cut them down”
- On the projections of failure of Prop 30
  - “Some people began to read tea leaves incorrectly…and then you (reporters) all go off like a herd of buffalo down the road. Hopefully you’re all now back on the plane of common sense”

NEXT STEPS

- DETERMINE WHETHER EPA IS RESTRICTED VS UNRESTRICTED
- ADVOCATE FOR A "TRUE UP" AT P1
- STATUTORY PROTECTION FOR EPA ESTIMATE
- STATUTORY PROTECTION FROM RDA EARLY TERMINATION
- REDUCE PARCEL TAX VOTE THRESHOLD FROM 66.7% TO 55%

Questions

- THANK YOU FOR YOUR PARTICIPATION!

SSC Community College Financial Projection Dartboard
2012-13 Adopted Budget, Proposition 30 Approved

This version of SSC's Financial Projection Dartboard is based on the 2012-13 adopted State Budget and the passage of Proposition 30. We have updated the COLA, CPI, and ten-year T-bill planning factors to reflect economic forecasts as of November 2012. We rely on various state agencies and outside sources in developing these factors, but we assume responsibility for them with the understanding that they are, at best, general guidelines.

Factor		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Statutory COLA for Apportionments		2.24%	3.24%	2.00%[1]	2.30%	2.50%	2.70%
Funded COLA		**0.00%**	**0.00%**	**0.00%**	**2.30%**	**2.50%**	**2.70%**
Growth Funding		**—**	**$50 million**	**Ongoing**	**Ongoing**	**Ongoing**	**Ongoing**
Systemwide Apportionment Cuts		**-$385 Million**	**Ongoing**	**Ongoing**	**Ongoing**	**Ongoing**	**Ongoing**
State Categorical Programs		Ongoing[2]	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
California CPI		2.39%	2.60%	2.30%	2.50%	2.60%	2.80%
California Lottery[3]	Base Prop 20	$125.00 $30.00	$124.25 $30.00	$124.25 $30.00	$124.25 $30.00	$124.25 $30.00	$124.25 $30.00
PERS Employer Rate		10.923%	11.417%	11.417%	11.417%	11.417%	11.417%
Interest Rate for 10-Year Treasuries		1.93%	1.75%	2.00%	2.30%	2.60%	2.90%

[1] While a positive statutory COLA is projected for 2013-14, the state's ability to fund it is suspect. Districts should have a contingency plan if the state decides not to fund this COLA percentage.

[2]Reflects 2009-10 cut of 32% (except as noted in list). Programs are "protected" because the funding restrictions and requirements remain.

Protected Programs

- Basic Skills
- CalWORKs (augmented 2009-10)
- Career-Technical Education (augmented 2010-11)
- Cooperative Agency Resources for Education (CARE)
- Disabled Students Programs and Services (DSPS)
- Extended Opportunity Programs and Services (EOPS) (48% cut)
- Fund for Student Success
- Foster Care Education (25% cut)
- Nursing Program Support
- Student Financial Aid Administration
- Telecommunications and Technology

Reflects 2009-10 cut of 62% (except as noted in list). Programs are "unprotected" because, following a public hearing of the governing board, districts can redirect the funding to any other state categorical program, and funding restrictions and requirements are waived as a result through 2014-15. Funding allocations are proportional based on 2008-09.

Unprotected Programs

- Apprenticeship
- Campus Child Care Tax Bailout
- Economic Development
- Equal Employment Opportunity
- Matriculation
- Part-time Faculty Compensation (71% cut)
- Part-time Faculty Health Insurance
- Part-time Faculty Office Hours
- Physical Plant/Instructional Support (funding eliminated)
- Transfer Education and Articulation

[3]The forecast for Lottery funding per FTES includes both base (unrestricted) funding and the amount restricted by Proposition 20 for instructional materials. Lottery funding is initially based on prior year actual annual FTES, and is ultimately based on current-year annual FTES.

Tax Measure Pass

Rancho Santiago Community College District
Unrestricted General Fund 3 Year Multi-Year Projection

@ 5% Health and Welfare Increase

Multi-Year Projection:	**2011-2012 Actuals**	**2012-2013 Projected Year Total as of November**	**2013-2014 Projected Budget**	**2014-2015 Projected Budget**	**2015-2016 Projected Budget**
Beginning Balance	$46,251,297	$43,608,426	$37,244,474	$29,332,574	$18,925,034
Total Revenue [1]	135,506,921	137,707,289	137,707,289	137,707,289	137,707,289
Total Expenditure	138,149,792	144,071,241	145,619,189	148,114,829	149,873,096
Surplus/ (Deficit)	(2,642,871)	(6,363,952)	(7,911,900)	(10,407,540)	(12,165,807)
Ending Balance	$43,608,426	$37,244,474	$29,332,574	$18,925,034	$6,759,227

@ 7.5% Health and Welfare Increase

Multi-Year Projection:	2011-2012 Actuals	2012-2013 Projected Year Total as of November	2013-2014 Projected Budget	2014-2015 Projected Budget	2015-2016 Projected Budget
Beginning Balance	$46,251,297	$43,608,426	$37,244,474	$28,865,123	$17,464,249
Total Revenue [1]	135,506,921	137,707,289	137,707,289	137,707,289	137,707,289
Total Expenditure	138,149,792	144,071,241	146,086,640	149,108,163	151,456,296
Surplus/ (Deficit)	(2,642,871)	(6,363,952)	(8,379,351)	(11,400,874)	(13,749,007)
Ending Balance	$43,608,426	$37,244,474	$28,865,123	$17,464,249	$3,715,242

@ 10% Health and Welfare Increase

Multi-Year Projection:	2011-2012 Actuals	2012-2013 Projected Year Total as of November	2013-2014 Projected Budget	2014-2015 Projected Budget	2015-2016 Projected Budget
Beginning Balance	$46,251,297	$43,608,426	$37,244,474	$28,397,670	$15,980,086
Total Revenue [1]	135,506,921	137,707,289	137,707,289	137,707,289	137,707,289
Total Expenditure	138,149,792	144,071,241	146,554,093	150,124,873	153,114,875
Surplus/ (Deficit)	(2,642,871)	(6,363,952)	(8,846,804)	(12,417,584)	(15,407,586)
Ending Balance	$43,608,426	$37,244,474	$28,397,670	$15,980,086	$572,500

[1] For projected fiscal year 2012-13, increase in state revenuesif tax measure pass $1 million

Tax Measure Pass

Rancho Santiago Community College District
Unrestricted General Fund 3 Year Multi-Year Projection

	2011-2012 Actuals	2012-2013 Projected Year Total as of November	2013-2014 Projected Budget	2014-2015 Projected Budget	2015-2016 Projected Budget
Assumptions:					
Revenue:					
General Apportionment Deficit Factor	-	-	-	-	-
Workload Measure Reduction (negative growth)	-	-	-	-	-
Cost of Living Adjustment	0.000%	0.000%	0.000%	0.000%	0.000%
Lottery Revenue-Unrestricted	$123.00	$125.00	$125.00	$125.00	$125.00
Expenditure:					
Step/Column/Salary Net Adjustment	0.00%	1.00%	1.00%	1.00%	1.00%
PERS Rate	10.923%	11.417%	11.417%	11.417%	11.417%
Health and Welfare PremiumPercent I	8.200%	6.200%	5.000%	5.000%	5.000%
Utilities Cost Increase	4.200%	5.000%	3.000%	3.000%	3.000%

Assumptions:					
Revenue:					
General Apportionment Deficit Factor	-	-	-	-	-
Workload Measure Reduction (negative growth)	-	-	-	-	-
Cost of Living Adjustment	0.000%	0.000%	0.000%	0.000%	0.000%
Lottery Revenue-Unrestricted	$123.00	$125.00	$125.00	$125.00	$125.00
Expenditure:					
Step/Column/Salary Net Adjustment	0.00%	1.00%	1.00%	1.00%	1.00%
PERS Rate	10.923%	11.417%	11.417%	11.417%	11.417%
Health and Welfare PremiumPercent I	8.200%	6.200%	7.500%	7.500%	7.500%
Utilities Cost Increase	4.200%	5.000%	3.000%	3.000%	3.000%

Assumptions:					
Revenue:					
General Apportionment Deficit Factor	-	-	-	-	-
Workload Measure Reduction (negative growth)	-	-	-	-	-
Cost of Living Adjustment	0.000%	0.000%	0.000%	0.000%	0.000%
Lottery Revenue-Unrestricted	$123.00	$125.00	$125.00	$125.00	$125.00
Expenditure:					
Step/Column/Salary Net Adjustment	0.00%	1.00%	1.00%	1.00%	1.00%
PERS Rate	10.923%	11.417%	11.417%	11.417%	11.417%
Health and Welfare PremiumPercent I	8.200%	6.200%	10.000%	10.000%	10.000%
Utilities Cost Increase	4.200%	5.000%	3.000%	3.000%	3.000%

Physical Resources Committee

Meeting of October 3, 2012
1:30 p.m.
Science Center, Room 103 – Santiago Canyon College

Meeting called by: Peter Hardash
Time called: 1:35 p.m.
Attendees: Sue Garnett, Peter Hardash, Steve Kawa, Jim Kennedy, Linda Melendez, Craig Nance, Adam O'Connor, Darryl Odum, Alex Oviedo and Marti Reiter

Minutes

Agenda item: Welcome – Mr. Hardash called the meeting to order at 1:35 p.m.

Agenda item: Bond Projects Update
Discussion: Mr. Odum reviewed the bond project summary dated August 27, 2012.

- SAC College Avenue Realignment – Demolition of the intersection at College Avenue and 17th Street is underway. Work on wireless traffic controls, handicap rams and the campus entrances continues.
- SAC Portable Buildings Certification – DSA has requested additional structural review by the engineer in order to confirm mechanical attachments which were submitted in the Field Change Directive (FCD).
- SAC Perimeter Site Improvements – Job walk was on September 20th, 21 attended. Fourteen contracts downloaded the plans and specifications. The deadline for the request for information is October 3.
- SAC Baseball Complex and Improvements – The District is assembling the required documents to be submitted to DSA for close-out.
- SAC U Building Seismic Rehabilitation (Bookstore only) – An October 8, 2012 meeting has been scheduled with the campus to review the scope and impact to the college campus.
- SAC D Building – DSA has approved the plans; job walk is scheduled for October 25, 2012.
- SAC Access Points/Wi-Fi Network – Project will be complete by December 2012.
- SAC Video Surveillance Security System – Parking lot cameras are installed but the rain and hot temperature caused some malfunctions. The engineering team will determine the cause and present the district with possible solutions.
- SCC Science Building – The architect is in the process of closing out the project through DSA.

- SCC Parking Lot and Santiago Canyon Entry – The architect is in the process of closing out the project through DSA.
- SCC M&O Roof – Installation of metal roof panels is complete, composite metal panels are scheduled for delivery in late October.
- SCC Gym Equipment & Furnishings – Gym equipment and furnishings have been installed, working on punch list items.
- SCC Swimming Pool – Pool has been signed off on by the Health Department, working on punch list items. Discussion on securing the area continues, there has already been an incident where a city soccer team player jumped the fence and entered the pool.
- SCC Athletics/Aquatics Complex – The grass pavers have been installed and the asphalt repairs are complete. Roof screens are being installed and the mechanical system is being balanced.
- SCC Humanities Building – Southern Cal Grading has begun the fine grading along the north side of the building for the concrete flat work to commence.
- SCC Street Improvements of Chapman Avenue & Santiago Canyon Road – Contractor is scheduling the ADA ramp work; LPA continues to work with the contractor on punch list items. Signal Maintenance Agreement from the City of Orange was approved by the Board of Trustees on September 24th.
- SCC Loop Road Extension – SCE requested fixes have been installed, waiting on the fabrication of the guard rails.
- SCC OEC Seismic Rehabilitation – The cost analysis on the repair and replacement is being review by Westberg+White

Agenda item: Measure Q – Schools Facility Improvement District (SFID) for Santa Ana College
Discussion: As information, the campaign committee continues to meet weekly at the SchoolsFirst Federal Credit Union weekly on Tuesdays. Social media websites are up and running, informing voters of the details on Measure Q. Early indication shows tremendous support within the community.

Agenda item: Assistant Vice Chancellor, Facility Planning Hiring Process Update
Discussion: Mr. Hardash said the position application deadline was last Friday; screening committee for the position will meet within the next few weeks.

Agenda item: Campus Facilities Meetings Update
Discussion: Approved Minutes from the SAC Facilities Committee meeting on May 15, 2012 were distributed as information. There were no questions. The approved Minutes from the SCC Facilities Committee meeting on August 27, 2012 were distributed as information, there were no questions.

Agenda item: Bond Budget Update
Discussion: Mr. Hardash distributed and reviewed the Measure E projects summary dated August 31, 2012. Santa Ana College projects are 84% complete; Santiago Canyon College is 95% complete and the District Operations Center projects are 97% complete. A total of

$326,217,688 of the $364,674,517 (which includes original issuance, interest and refunding proceeds) has been spent.

Agenda item: Meeting Minutes – September 5, 2012
Discussion: Minutes were distributed – a motion was made by Ms. Garnett, seconded by Ms. Reiter and approved unanimously.

Agenda item: Future Meeting Schedule
Discussion: The next meeting is scheduled for Wednesday, November 7, 2012 – Foundation Board Room - 215 at Santa Ana College.

Adjournment: 2:35 p.m.

Vacant Funded Postions as of 11/19/2012 - Projected Annual Salary and Benefits Savings

Fund	Management/ Academic/ Confidential	Title	Reasons	Site	Effective Date	Notes	2012-13 Annual Budgeted Sal/Ben	Total Unr. General Fund by Site
11	Manager, Fiscal Services	Manager, Fiscal Services	NEW	District	7/1/2012	Recruiting # CL12-0366	185,655	
11	Bob Partridge	AVC, Facility Planning	Retirement	District	7/1/2010	Recruiting # CL12-0367	210,597	**396,252**
11	Brown, Sharon	Professor, Art/Digital Imaging/Multimedia	Retirement	SAC	12/15/2012		87,192	
11	Comeau, Carol	Dean, Science, Math & Health Sciences	Retirement	SAC	6/21/2012	Recruiting AC12-0257. Interim Cheryl Carrera effective 8/21/2012 per July 23 H/R Docket	23,215	
11	Mallory, Lee	Professor, ESL	Retirement	SAC	12/15/2012		60,807	**171,214**
11	Ripley, Ed	Vice President, Continuing Education	Retirement	SAC	6/30/2011	James Kennedy, Interim	-	
11	Gates, James	Professor, Water Utility Science	Retirement	SCC	5/20/2012	*50,000 reduced in salary account for 2012-13 tentative budget*	89,746	
11	Kennedy, James	Dean, Instr & Std Svcs	Interim assisgnment	OEC	8/1/2011	*Interim assignment as VP Continuing Ed-CEC One time reduction for 2012-13 tentative budget*	-	**214,719**
11	Stringer, Martin	Associate Dean/Athletic Director	Interim assisgnment	SCC	7/1/2010	*Martin Stringer, Interim Dean Bus/Math/Sci One time reduction for 2012-13 tentative budget*	-	
11	Yorba, Joseph	Associate Professor, Math	Retirement	SCC	8/9/2012		124,972	
							782,184	
	Classified	**Title**	**Reasons**		**Effective Date**	**Notes**	**2012-13 Annual Budgeted Salary/Ben**	**Total Unr. General Fund by Site**
11	Audit Specialist	Audit Specialist	New	District	7/1/2010		103,413	
11	Contreras, Jose	Senior Custodian	Administrative Term	District	10/24/2011	REDUCE TO 47.5%/12 MONTHS	20,652	
11	Larson, Nancy	Administrative Secretary	Retirement	District	12/30/2011		86,025	
50%-fd 11/ 50%-fd 12	Linnen, Jason	Computer Lab Tech	Layoff	District	10/8/2012		24,524	
60%-fd 11/ 40%-fd 12	Navarro, Lewis	District Safety Officer	Resignation	District	10/3/2012	Recruiting Req#CL12-0379	6,700	
11	Quinn, David	Network Specialist IV	Retirement	District	April-13		2,088	**579,371**
11	Smith, James	Computer Tech	Promotion	District	7/1/2011	Employee waived medical and dental insurance therefore amounts are not budgeted.Department code change from 14142 to 54142	74,475	
11	Thompson, Steve	Warehouse Storekeeper	Retirement	District	6/21/2012	Recruiting Req#CL12-0364	69,432	
11	Tran, Trini	Application Specialist III	Promotion	District	9/10/2012		95,233	
11	Wright, Wanda	Helpdesk Analyst	Deceased	District	11/13/2011	Department code change from 24143 to 54143	96,829	
11	Adams, Stephanie	Scholarship Coordinator	Retirement	SAC	10/5/2012	Recruting #CL12-0368	52,852	
11	Arriaza, Cecilia	Student Services Coordinator	Resignation	SAC	7/2/2012		86,693	
11	Arroyo, Judy	Administrative Secretary	Retirement	SAC	7/31/2012		61,478	
11	Ediss, Michael	Custodian	change position	SAC	9/26/2011		65,783	
11	Franco, Mark	Counseling Assistant	change position	SAC	11/27/2011		20,094	
11	Facilities Manager	Facilities Manager	Dismissal	SAC		Interim, Ron Jones - Recruiting #CL12-0355 (Bromberger)	-	
75%-fd 11 25%-fd 12	Garcia, Paula	High School & Community Outreach	Retirement	SAC	12/30/2012		25,833	
11	Huynh, Kim	Instructional Assistant	Resignation	SAC	9/25/2012		12,408	**751,451**
11	Lopez, Eduardo	Instructional Assistant	Resignation	SAC	8/24/2012		14,488	
11	Lopez Ediss, Christine	Counseling Assistant	Resignation	SAC	8/17/2012		21,223	
11	Mayoral, Evelyn	General Office Clerk	Resignation	SAC	6/13/2012	Recruiting # CL12-0371	18,168	
11	Meza, Renise	Intermediate Clerk	Promotion	SAC	4/29/2011		68,238	
11	Murillo, George	Gardener/Utility Worker	Promotion	SAC	9/24/2012	Recruiting # CL12-0376	63,095	
11	Quiggle, John	Auto Mechanic Maintenance	Retirement	SAC	8/31/2012		58,440	
11	Ruiz, Lupe	High School & Community Outreach	Deceased	SAC	6/28/2011		93,235	
11	Schaffner, Welsey	Instructional Assistant	Medical Layoff	SAC	2/15/2012		12,480	
11	Vives, Cristina	Administrative Clerk	Resignation	SAC	7/12/2012		76,945	
11	Fogleman, Patricia	Library Technician II	Retirement	SCC	7/26/2012		86,790	
11	Hafner, Susan	Instructional Assistant	Resignation	SCC	4/10/2011	Recruiting # CL12-0348	19,168	
11	Moreno, Maria	Instructional Assistant	Resignation	OEC	10/8/2012		15,550	**467,972**
11	Moss, Jonathan	Science Lab Coordinator	Resignation	SCC	1/11/2012		23,812	
11	Nguyen, Tuyen	Interim Associate Registrar	Promotion	SCC	10/30/2012		53,307	
11	Olmos, Robert	Student Services Coordinator	Resignation	SCC	8/1/2012		86,614	
11	Saterfield, Kalonji	Transfer Center Specialist	change position	SCC	4/8/2012		81,682	
11	Tran, Kieu Loan	Admissions & Records Specialist II	Resignation	SCC	7/15/2011		60,332	
11	Wilksen, Terry	Executive Secretary	Retirement	SCC	12/30/2012		40,716	
12	Aguirre Ruiz, Armando	Student Activities Specialist	Resignation	OEC	10/4/2012			
12	Batth, Navanjot	Instructional Assistant	Resignation	SCC	8/9/2012	rescind resignation-still active		
12	Bonnema, Carol	Administrative Clerk	Retirement	SAC	12/30/2012			
12	Catalan, Anna	Director, Special Program	Resignation	SCC	5/4/2011	Recruiting - # CL12-0375		
12	Delaney, Kathleen	Career Technician 75% FTE	Retirement	SAC	8/9/2012	remove position - reorg		
12	Deluna, James	Learning Facilitator	Resignation	SCC	9/16/2011	Recruiting		
12	Fast, Debra	Financial Aid Tech	Termination	SCC	12/2/2011			
12	Fennell, Katryn	Intermediate Clerk	Resignation	SCC	6/28/2012			
12	Frausto, Jesus	Instructional Assistant	Resignation	SCC	8/18/2012			
12	Herrlein, Ann	Instructional Assistant	Resignation	SAC	3/23/2012			
12	Hurtado, Diane	Student Services Specialist	Resignation	SAC	6/30/2011			
12	Janus, Louise	DSPS Specialist	Promotion	SAC	8/14/2011			
12	Johnson, Nicole	Learning Facilitator	Resignation	SCC	8/17/2011			
12	Leeper, Dayna	District Safety Officer	Change position	SCC	7/13/2012			
12	Neri, Yazmin	Instructional Assistant	Resignation	SCC	7/26/2012	Recruiting # CL12-0370		
12	Ortiz, Alfonso	Student Services Specialist	Resignation	SCC	5/2/2011			
12	Ramirez, Cristina	Instructional Assistant	Resignation	CEC	6/10/2011			
12	Salazar, Mario	District Safety Officer	Resignation	SCC	6/2/2012	Recruiting		
12	Sandoval, Maricela	High School & Community Outreach	Promotion	DO	11/9/2011			

Vacant Funded Postions as of 11/19/2012 - Projected Annual Salary and Benefits Savings

Fund	Management/ Academic/ Confidential	Title	Reasons	Site	Effective Date	Notes	2012-13 Annual Budgeted Sal/Ben	Total Unr. General Fund by Site
12	Steed, Annie	Administrative Secretary	Medical Layoff	**SAC**	3/16/2011			
12	Tran, Anh-Phuong	Intermediate Clerk	Promotion	**SAC**	4/5/2011	Eliminate Reorg 718		
12	Vargas, Jorge	Instructional Assistant	Promotion	**SAC**	3/19/2012			
12	Villa, Mario	Intermediate Clerk	Retirement	**CEC**	12/31/2011	Recruiting # CL12-0344		
12	Zamudio, Fidel	Instructional Assistant	Resignation	**CEC**	10/30/2012			
33	Bernal, Imelda	Administrative Clerk	Retirement	**SAC**	6/30/2013			
33	Garcia, Celia	Custodian	Resignation	**SAC**	9/24/2012			
33	MacKenney, Veronica	Director II	Retirement	**SAC**	10/31/2012			
							1,798,794	
TOTAL							**2,580,978**	

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
2012-13 FTES TARGET COMPARISON TO ACTUAL

11-20-2012		2011-2012 Recalculation (11-13-2012) Annual Reporting			2012-2013 Total Target			2012-2013 Actuals as of 11-20-2012			2012-2013 Better (Worse) Target vs. Actual as of 11-20-2012		
		TOTAL	SAC	SCC	TOTAL	SAC	SCC	TOTAL	SAC	SCC	TOTAL	SAC	SCC
SUMMER													
NC		838.13	638.32	199.81	**444.00**	**277.50**	**166.50**	463.42	297.48	165.94	19.42	19.98	(0.56)
CR		1,159.71	699.40	460.31	**1,138.00**	**730.00**	**408.00**	1,522.85	1,116.45	406.40	384.85	386.45	(1.60)
SUMMER TOTALS [1]		1,997.84	1,337.72	660.12	**1,582.00**	**1,007.50**	**574.50**	**1,986.27**	**1,413.93**	**572.34**	**404.27**	**406.43**	**(2.16)**
FALL													
NC	F	2,538.59	1,788.36	750.23	**2,473.00**	**1,722.00**	**751.00**	**2,473.00**	**1,722.00**	**751.00**	0.00	0.00	0.00
CR												0.00	0.00
IS, DSCH		155.47	22.48	132.99	**156.00**	**23.00**	**133.00**	189.54	64.14	125.40	33.54	41.14	(7.60)
IS, WSCH		505.85	396.99	108.86	**523.00**	**414.00**	**109.00**	515.22	404.30	110.92	(7.78)	(9.70)	1.92
DSCH	F	260.47	137.93	122.54	**276.00**	**144.00**	**132.00**	365.86	204.41	161.45	89.86	60.41	29.45
Positive	F	1,575.57	1,498.32	77.25	**1,632.00**	**1,567.00**	**65.00**	**1,632.00**	**1,567.00**	**65.00**	0.00	0.00	0.00
WSCH		7,124.89	4,642.08	2,482.81	**7,329.00**	**4,842.00**	**2,487.00**	7,296.51	4,801.12	2,495.39	(32.49)	(40.88)	8.39
TOTAL CR		9,622.25	6,697.80	2,924.45	**9,916.00**	**6,990.00**	**2,926.00**	**9,999.13**	**7,040.97**	**2,958.16**	**83.13**	**50.97**	**32.16**
FALL TOTALS		12,160.84	8,486.16	3,674.68	**12,389.00**	**8,712.00**	**3,677.00**	**12,472.13**	**8,762.97**	**3,709.16**	**83.13**	**50.97**	**32.16**
SPRING													
NC	F	3,579.51	2,498.99	1,080.52	**3,635.00**	**2,501.00**	**1,134.00**	**3,635.00**	**2,501.00**	**1,134.00**	0.00	0.00	0.00
CR													
Jan. intersession	F	0.00	0.00	0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	0.00	0.00	0.00
IS, DSCH		174.03	50.86	123.17	**176.00**	**53.00**	**123.00**	**176.00**	**53.00**	**123.00**	0.00	0.00	0.00
IS, WSCH		508.63	400.49	108.14	**525.00**	**417.00**	**108.00**	**525.00**	**417.00**	**108.00**	0.00	0.00	0.00
DSCH	F	278.79	165.37	113.42	**322.00**	**172.00**	**150.00**	**322.00**	**172.00**	**150.00**	0.00	0.00	0.00
Positive	F	*1,953.08*	1,865.65	87.43	**2,025.00**	**1,950.00**	**75.00**	**2,025.00**	**1,950.00**	**75.00**	0.00	0.00	0.00
WSCH		7,058.66	4,614.53	2,444.13	**7,346.00**	**4,813.00**	**2,533.00**	**7,346.00**	**4,813.00**	**2,533.00**	0.00	0.00	0.00
TOTAL CR		9,973.19	7,096.90	2,876.29	**10,394.00**	**7,405.00**	**2,989.00**	**10,394.00**	**7,405.00**	**2,989.00**	**0.00**	**0.00**	**0.00**
SPRING TOTALS		13,552.70	9,595.89	3,956.81	**14,029.00**	**9,906.00**	**4,123.00**	**14,029.00**	**9,906.00**	**4,123.00**	**0.00**	**0.00**	**0.00**
SUMMER to borrow													
NC		0.00	0.00	0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
CR		0.00	0.00	0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
SUMMER TOTALS		0.00	0.00	0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
COMBINED													
NC		6,956.23	4,925.67	2,030.56	**6,552.00**	**4,500.50**	**2,051.50**	**6,571.42**	**4,520.48**	**2,050.94**	**19.42**	**19.98**	**(0.56)**
CREDIT		20,755.15	14,494.10	6,261.05	**21,448.00**	**15,125.00**	**6,323.00**	**21,915.98**	**15,562.42**	**6,353.56**	**467.98**	**437.42**	**30.56**
TOTAL		27,711.38	19,419.77	8,291.61	**28,000.00**	**19,625.50**	**8,374.50**	**28,487.40**	**20,082.90**	**8,404.50**	**487.40**	**457.40**	**30.00**
		Non-Credit	**70.81%**	**29.19%**	**Non-Credit**	**68.69%**	**31.31%**	Non-Credit	68.79%	31.21%			
		Credit	**69.83%**	**30.17%**	**Credit**	**70.52%**	**29.48%**	Credit	71.01%	28.99%			
		Total	**70.08%**	**29.92%**	**Total**	**70.09%**	**29.91%**	Total	70.50%	29.50%			

Abbreviations:
- NC=noncredit students
- CR=credit students
- IS=independent study/work study
- F = total faculty contact hours of instruction released for flex-time activities

Tentative Target Rcd	9/24/2012 CR 9/20/2012 NCR	9/20/2012 CR 9/20/2012 NCR
Revised Target Rcd		
Revised Target Rcd		

Estimated Factors	(F)	
SAC CEC*	**1.0391**	*Updated at P3
SAC-DSCH	**1.0279**	*Updated at Recalc FY11-12
SAC-Positive	**1.0193**	*Updated at Recalc FY11-12
SCC-OEC*	**1.0359**	*Updated at P3
SCC-DSCH	**1.0170**	*Updated at Recalc FY11-12
SCC-Positive	**1.0210**	*Updated at Recalc FY11-12

NOTE: [1] Summer 2011 FTES prior to July 1, 2011 were borrowed from Credit and Noncredit for 2010-11 Annual Recalculation report

TOTAL	SAC	SCC
(102.94)	0.00	(102.94)
(743.13)	(602.01)	(141.12)
(846.07)	**(602.01)**	**(244.06)**

RSCCD Tentative Budget Calendar

Fiscal Year 2013 – 2014

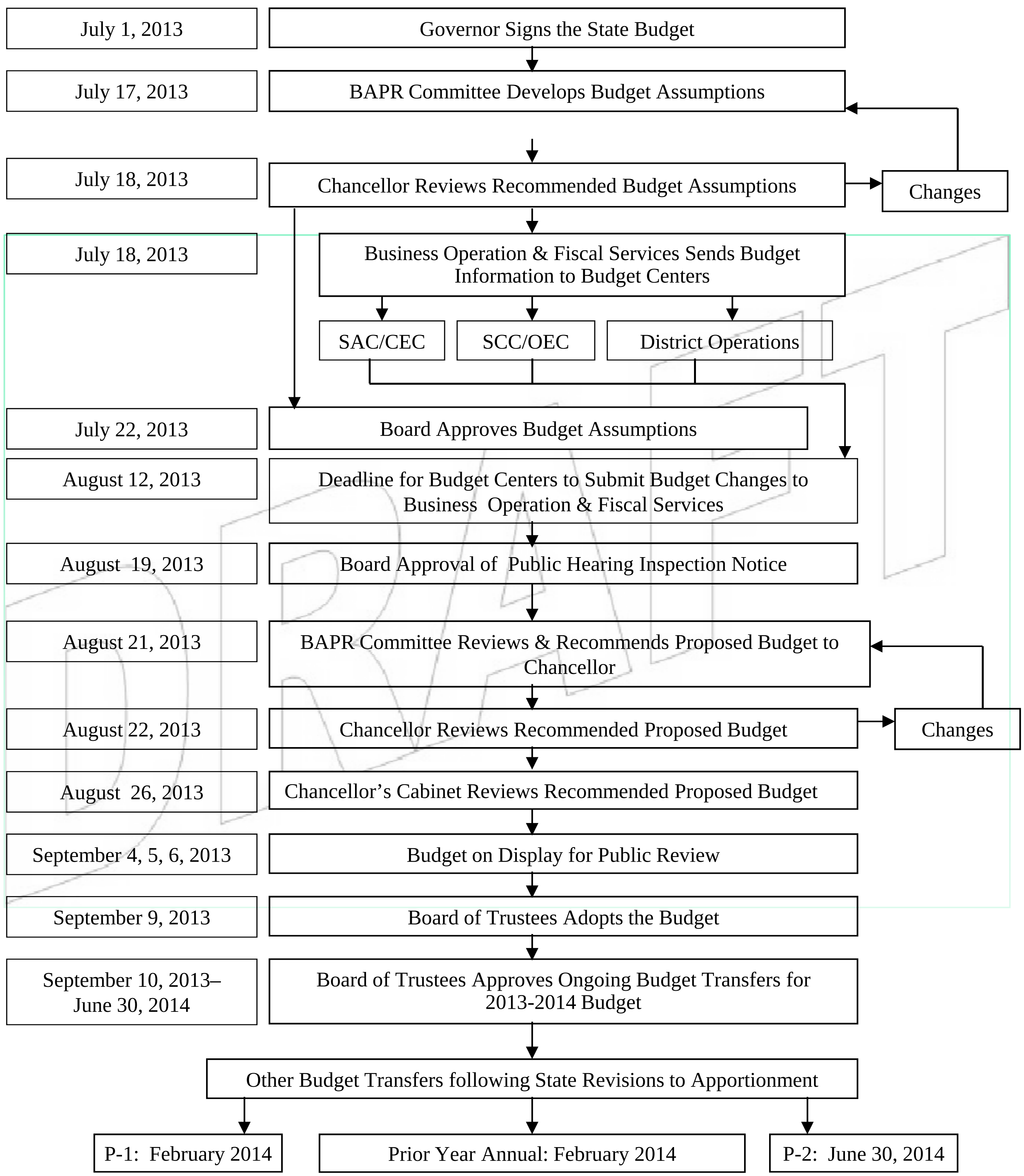
, 2013

January 10, 2013	Governor's 2013-2014 Proposed Budget
February 20, 2013	BAPR Committee Develops Budget Assumptions
March 20, 2013	Chancellor Reviews Recommended Budget Assumptions → Changes
	?????-reductions?
April 8, 2013	Board Approves Budget Assumptions
April 22, 2013	Business & Fiscal Services Sends Budget Development Worksheets to Budget Centers
	SAC / SCC / District Operations
May 20, 2013	Deadline for Budget Centers to submit Budget Change Forms to Business Operation & Fiscal Services
May 15, 2013	Governor's May Revise Budget
May 29, 2013	Tentative Budget to BAPR Committee For Recommendation to Chancellor
May 30-31, 2013	Chancellor Reviews Tentative Budget → Changes
June 10, 2013	Chancellor's Cabinet Reviews Recommended Tentative Budget
June 12-14, 2013	Budget on Display for Public Review
June 17, 2013	Board of Trustees Approves Tentative Budget

RSCCD Adopted Budget Calendar

Fiscal Year 2013 – 2014

, 2013



RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
2323 N. Broadway, Santa Ana, California 92706
Office: (714) 480-7321 Fax: (714) 796-3935

Budget Allocation and Planning Review Committee Meeting

SAC Foundation Board Room
1:30 p.m. – 3:00 p.m.

Meeting Minutes for October 17, 2012

BAPR Members Present: James Kennedy, Esmeralda Abejar, Juan Vazquez, Steve Kawa, Raul Gonzalez del Rio, Morrie Barembaum, Corinna Evett, Peter Hardash, John Didion, Adam O'Connor, and Steve Eastmond

BAPR Members Absent: Erlinda Martinez, Linda Rose, Raymond Hicks, Jeff McMillan, Jose Vargas, Nga Pham and Marti Reiter

Guests Present: Thao Nguyen, Narges Rabii, John Zarske, Gina Huegli and Linda Melendez

The meeting was called to order by Mr. Hardash at 1:30 p.m.

State/District Budget Update

- 2011/12 CCFS-311
  - Unrestricted General Fund 11
    - Total Revenue $135,506,921
    - Total Expenditures $ 138,149,792
    - Decrease in Fund Balance ($2,642,871)
    - Ending Fund Balance June 30, 2012 $43,608,426
  - Current Expense on Education (CEE) 50.18%
  - 2012-2013 GANN Appropriations Subject to Limit $121,245,892
  - Lottery
    - Unrestricted Expenditures $3,833,379
    - Restricted Prop 20 Expenditures $543,535
- 2011/12 Fee Report 323
  - District Total Fees $7,439,602
    - Fees Paid $7,033,439
    - Receivable $406,163
- 2012/13 FTES Report as of 9/24/2012
  - District Total 28,694.14
    - SAC Total 20,275.61
      - Credit 15,755.18
      - Non Credit 4,520.43
    - SCC Total 8,418.53
      - Credit 6,367.59
      - Non Credit 2,050.94

Committee Membership, Mission, and Responsibilities

Budget Allocation and Planning Review Committee (Fiscal Resources Committee)

- Membership Representation
  - Would be four (4) from each site; Santa Ana College, Santiago Canyon College and District Office
  - Peter Hardash will take recommendation for membership representation to Chancellor and District Council

Although, the Budget Allocation and Planning Review Committee (BAPRC) is not subject to the Brown Act, discussion ensued regarding the Brown Act and the spirit of open meeting discussions. Members requested to have the agenda and items available before committee meetings. Mr. Hardash requested flexibility to bring discussion items and materials to meetings that are not listed on the agenda. The committee agreed and understood there may be additional items that may not be available at the time the agenda is sent out.

Mr. Hardash called for a motion to have the agenda and materials available electronically 48 hours or at minimum 24 hours before the next scheduled BAPRC meeting. The motion was moved by Mr. Vazquez and seconded by Ms. Evett. The motion carried unanimously.

Committee Updates

- BAPR Work Group- October 3, 2012 meeting was cancelled
- Human Resource Committee-
- District Facility Planning Committee- Minutes from September 5, 2012
- Technology Advisory Group-
- Accreditation Update –
- SB361 BAM Implementation Technical Committee –

Information Handouts

- Vacant Funded Position List as of 10/15/2012
    - Projected Annual salary and benefits savings $3,222,282

- Measure "E" projects as of October 1, 2012
    - Project % completion
        - Santa Ana College 84%
        - Santiago Canyon College 95%
        - District Operations 97%
        - All Sites 90%

Approval of BAPRC Meeting Minutes – August 15, 2012 and September 26, 2012

Mr. Hardash called for a motion to approve the BAPRC Minutes of the August 15, 2012 and September 26, 2012 meeting. The motion was moved by Dr. Barembaum and Mr. Kennedy seconded the motion to approve the minutes as presented. The motion carried unanimously.

Adjournment

Mr. Hardash adjourned the meeting at 3:00 p.m.

Meeting Schedule

BAPR Committee Meeting – 1:30 – 3:00, D.O. Board Room #107
November 28, 2012
December 12, 2012
January 23, 2013
February 20, 2013
March 20, 2013

Additional Materials Distributed at Meeting:

1. Report from Planning and Organizational Effectiveness Committee November 28, 2012
   Provided by: Bonita Jaros

Budget Allocation and Planning Review Committee
Report from Planning and Organizational Effectiveness Committee
November 28, 2012

The committee, one of the new district-level governance committees, is made up of ten (10) district/college (both SAC and SCC) colleagues from the three constituency groups.

The committee is co-chaired by Executive Vice Chancellor of Educational Services, John Didion and faculty member Bonita Jaros. It is also led and informed by the work of consultant Dr. Eva Conrad.

The **goals** of the committee are as follows:
To create a model for district/college budget/planning integration and to ascertain that this integration is maintained through continuous review.

The committee has met three times thus far and will meet again December 3, 2013.

The **body of work for 2012-2013** is as follows:

1. RSCCD Mission Statement—already approved –should be placed on all agendas and minutes and be prominent on the district and college websites.

2. The **2012 Planning Design Manual** (currently in Draft 3), which will serve as a model for the colleges to develop their respective planning design manuals. Contained therein: Introduction; Overview of Planning Design; RSCCD Planning Committees; RSCCD Mission Statement; RSCCD Comprehensive Master Plan; RSCCD Strategic Plan; Resource Allocation; Plan Implementation; Assessment of the plan; Progress Report on the RSCCD Comprehensive Master plan; Assessment of the planning Design and Decision-Making; Master Calendar of Document Review; District services Planning Portfolios; District-level Participatory Governance Committees.

3. A **Comprehensive District Master Plan—**10-year long-term plan (chapter 1 being reviewed at this time). It will contain the educational and facilities plans of both colleges. This document will be ready the latter part of spring. We will seek approval by District Council, who will present it to the BOR in May 2013.

4. The Comprehensive MP will inform a short term (3-year) **Strategic Plan**, which will contain **district goals**. This will be accomplished spring 2013.

5. There will be a **master calendar for continuous review** of all these documents. (The co-chairs are in process of creating this.)

Forthcoming work that the co-chairs will present to the committee:
Master Calendar for Document Review
After the Comprehensive Master Plan is completed--**Three templates** for college/district alignment—mission statement; goals; planning/budget calendar