RSCCD District Office
2011-2012
Budget Forum

December 1, 2011
State Budget Overview

Approved by the Legislature with majority vote in June
- Included $4 billion in additional expected revenues
- Automatic trigger cuts
  - Trigger 1
  - Trigger 2

Cuts to community colleges
- $400 million cut to base apportionment
- $110 million in increased fee revenue
  - Enrollment fee increase from $26 to $36/unit
- $129 million in new deferrals (IOU’s)

RSCCD state funding reduction of $7.9 million
State Budget Overview

- State revenues intentionally overstated in order to approve state budget on simple majority
  - Waiting for economy to get stronger
- State expenditures intentionally understated
  - Many are subject to lawsuits
  - Redevelopment Agencies, MediCal, Education Coalition
- More accounting tricks (deferrals), shifts and internal borrowing
- “Suspension” of Proposition 98 minimum funding
  - With simple majority vote?
  - Underfunded by $2.1 billion
State Budget - What’s Not Included for CCCs

- No Cost of Living Allowance (COLA)
  - Fourth year in a row without COLA

No Growth for student classes
More State Apportionment Deferrals

- Additional $129 million state-wide deferral (IOU’s)
- Total deferrals now at $961 million for CCCs
- $24.1 million deferral at year end for RSCCD
- Deferral mechanism is how state is able to maintain same level of funding to education without the additional revenue sources
  - Cuts vs. deferrals
- Now over 30% of state apportionment funds are provided in the succeeding fiscal year
- Creates monumental cash flow problem for districts every June through end of October
State Budget Crisis

- Fourth year of state and national recession
  - 08/09, 09/10, 10/11 and 11/12
  - No predictable end in sight – 3 to 5 years?
- State Legislature has not realistically dealt with the state budget crisis
  - Waiting for economy to come around
- When the state collects less revenue subject to Proposition 98 funding guarantees, it automatically reduces funding for K-14 education
State Budget Crisis

Proposition 98 (K-14) funding formula
- Prop 98 entitled to about 45% of state revenues
- Community colleges entitled to approximately 11% share of Prop 98 revenues
- RSCCD is approximately 2.5% share of the total California Community Colleges allocation (FTES basis)
- For every $1 billion shortfall in state revenue collections, RSCCD is reduced proportionately
  - Prop 98 entitled to approximately 45% share ($450 million)
  - Community colleges share approximately 11% ($49.5 million)
  - RSCCD share approximately 2.5% ($1.2 million)
State Budget Crisis
Latest Information

State Controller’s **October monthly revenue/expenditure report released**

- Year to date: collections short $1.5 billion in revenue compared to State Budget Act estimates (which included $4 billion extra)
- Also, State has $1.7 billion more in expenses year to date than budgeted
- Concern with state short on cash

Department of Finance (DOF) **Finance Bulletin for November**

- State short $1.3 billion in year to date revenue
State Budget Crisis
Latest Information

Legislative Analyst Office (LAO)
California’s Fiscal Outlook report

- Report at: http://www.lao.ca.gov
- First half of state budget trigger language estimates
- State deficit for 2012-2013 = $12.8 billion
- State deficit for current fiscal year = $3.7 billion short of $4 billion target
  - Both trigger reductions would be implemented
  - 2012-2013 deficit assumes trigger cuts continue into future years
- Five year forecast assumes no COLA’s for 5 years for all state agencies
State Budget Crisis

Department of Finance (DOF) will project their estimates of current fiscal year by December 15th

- DOF has indicated both triggers likely
- DOF can predict more expected tax revenues in second half of budget year
- Expect DOF projections before Dec. 15
- Governor’s Proposed Budget due Jan. 10

Triggers are based on the higher of the two projections
State Budget Triggers

- **Automatic** as of January 1, 2012
- “chatter” in Sacramento is that Legislature does not want triggers implemented
  - Trigger 2 too onerous on K-12
    - Shortens school year up to 7 days
    - Not possible to implement
  - Wants to open budget discussions
    - Wall street credit rating pressures
    - Governor has said no to re-opening budget
  - Assembly Speaker Perez quoted two days ago that triggers won’t be revisited by legislature
State Budget Triggers

- **Trigger 0**
  - at least $3 of the $4 billion additional revenue materializes
    - No additional funding cuts

- **Trigger 1**
  - between $2 and $3 billion of additional revenue materializes
    - $30 million apportionment cut to community colleges
    - increase in fees of $10, from $36/unit to $46/unit (July 1, 2012)
    - RSCCD – additional $900k mid-year funding cut

- **Trigger 2**
  - between $0 and $2 billion of additional revenue materializes
    - Trigger 1 cut and fee increase
    - PLUS a $72 million additional apportionment cut
    - RSCCD – additional $2 million mid-year funding cut

- Trigger cuts not proportional for community colleges like K-12 cuts
2011-2012 RSCCD Budget

- **July 1, 2011 beginning balance**
  - $47,079,378

- **June 30, 2012 projected ending balance**
  - $38,167,197

- **Spend down of beginning balance**
  - ($8.9 million)
  - Assumes all expenditure line item budgets will be spent
    - All authorized positions funded including benefits
  - Does not include potential Trigger 2 reductions of -$2 million

- **If Trigger 2 cuts are implemented, current year spend down will increase to $11 million, therefore, the June 30, 2012 ending balance would be approximately $36 million**
# Increase in 2010-2011 Fund Balance

<table>
<thead>
<tr>
<th>RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT</th>
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<tbody>
<tr>
<td><strong>Increase in 2010</strong></td>
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<td><strong>2011 Fund Balance</strong></td>
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<td><strong>Increase</strong></td>
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| Workload reduction and deficit | $ \ 7,514,795 |
| OEC center 2010-11 | 1,107,182 |
| OEC center 2009-10 | 1,107,182 |
| 2.21% growth | 3,079,583 |
| Expenditure savings/Vacant positions savings | 2,812,277 |
| **Total** | **15,621,019** |
| **Beginning balance 7/1/2010** | **32,190,876** |
| **Ending balance 6/30/2011** | **$ 47,811,895** |
| 2010-11 Second Principal Apportionment 6/17/11 Deficit | (732,517) |
| Ending balance for 6/30/2011 on 9/7/2011 | **$ 47,079,378** |
RSCCD Budget

- Ending/beginning balance is being used to delay/avoid additional reductions over the next two to three years
  - Hopefully until state economy begins to recover
- Beginning fund balance is one time money
  - Cannot be used for ongoing costs
- Without spending down of beginning balance, in excess of 5% reserve, we would need to make additional budget cuts asap
- Multi-year projections demonstrate how quickly deficit spending will eliminate the ending balance
Assumptions for Multi-Year Projection

- **Revenue** - $0 new revenue
  - Growth – 0%
  - COLA – 0%
  - Assumes no additional workload reductions
    - Negative growth
  - Assumes no “triggers”

- **Expenditures** - $3 to $5 million in additional cost
  - Step and Column movement
  - Known PERS employer rate increases
  - Health Benefits Premium increase (District cost) - 10% per year
  - Utilities cost increase – 3% per year
## Unrestricted General Fund Multi-Year Projection

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<td><strong>Beginning Balance</strong></td>
<td>$46,510,630</td>
<td>$38,163,936</td>
<td>$25,485,673</td>
<td>$8,650,572</td>
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<td><strong>Total Revenue</strong></td>
<td>135,502,156</td>
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</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>143,848,850</td>
<td>148,180,419</td>
<td>152,337,257</td>
<td>156,738,673</td>
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<tr>
<td><strong>Surplus/ (Deficit)</strong></td>
<td>(8,346,694)</td>
<td>(12,678,263)</td>
<td>(16,835,101)</td>
<td>(21,236,517)</td>
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Risks and Concerns

- Imbalanced state budget
  - DOF and LAO must determine by December 15, 2011 whether Trigger 1 and Trigger 2 must be implemented

  - Trigger 1
    - Student enrollment fee increase from $36 to $46
      - Delayed until July 1, 2012

  - Trigger 2
    - Additional state funding reductions
    - As workload measures (negative growth) – approx. (1.5)%

- Mid-year expenditure adjustments and reductions very difficult

- LAO forecasts the Prop 98 minimum funding guarantee possibly increases by $4 to $6 billion in 2012-2013
  - Very unlikely legislature will fund Prop 98 minimum guarantee with continuing state structural deficit of $10 billion

- LAO suggests in report that state legislature may need to suspend Prop 98 in 2012-2013
Risks and Concerns

- We can expect continued apportionment deferrals (IOU’s) if state needs to make additional reductions to Prop 98
  - More IOU’s or more funding cuts
  - State may not be able to buy back these cash deferrals for a long time
  - Continuing cash flow concerns
  - Once ending balance drops below $25 million, will need to borrow for cashflow

- Spending down ending fund balance
  - Temporarily provides needed cash flow for state IOU’s
  - Won’t last forever…
Questions?