Santa Ana College
2011-2012
Budget Forum

November 16, 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
- More accounting tricks (deferrals), shifts and internal borrowing
- “Suspension” of Proposition 98 minimum funding
  - With simple majority vote?
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

**California Community Colleges COLA History**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>CCC COLA</th>
<th>Statutory</th>
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<tbody>
<tr>
<td>2001-02</td>
<td>3.87</td>
<td>3.87</td>
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<tr>
<td>2002-03</td>
<td>2.00</td>
<td>1.66</td>
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<tr>
<td>2003-04</td>
<td>0.00</td>
<td>1.86</td>
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<tr>
<td>2004-05</td>
<td>2.41</td>
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<tr>
<td>2005-06</td>
<td>4.23</td>
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<tr>
<td>2006-07</td>
<td>5.92</td>
<td>5.92</td>
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<tr>
<td>2007-08</td>
<td>4.53</td>
<td>4.53</td>
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<tr>
<td>2008-09</td>
<td>0.00</td>
<td>5.66</td>
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<tr>
<td>2009-10</td>
<td>0.00</td>
<td>5.02</td>
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<tr>
<td>2010-11</td>
<td>0.00</td>
<td>(0.38)</td>
</tr>
<tr>
<td>2011-12</td>
<td>0.00</td>
<td>2.24</td>
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</table>
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
- 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
- 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

State Controller’s October revenue report released last week

- 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

DOF Finance Bulletin for November

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

- LAO California’s Fiscal Outlook report just released today
  - Report at: http://www.lao.ca.gov
  - First half of trigger language estimates
  - Deficit for 2012-2013 - $12.8 billion
  - Deficit for current fiscal year - $3.7 billion short of $4 billion target
    - Both trigger reductions would be implemented
    - 12/13 deficit assumes trigger cuts continue
State Budget Crisis

- Department of Finance (DOF) will project their estimates of current fiscal year by December 15th.
- Triggers are based on the higher of the two projections.
State Budget Triggers

Automatic as of January 1, 2012
- Must decide by December 15, 2011

“chatter” in Sacramento is that Legislature does not want triggers implemented
- Too onerous on K-12
- Wants to open budget discussions
  - Wall street credit rating pressures
  - Governor has said no
- Most likely “kick the can” into 2012-2013 budget process
  - Triggers becomes first cuts in new budget
- More K-14 apportionment deferrals predicted in current fiscal year due to State cash shortage
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
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 included, 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

## RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Not Included in the budget for FY 2010-11</td>
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<tr>
<td>Workload reduction and deficit</td>
<td>$ 7,514,795</td>
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<tr>
<td>OEC center 2010-11</td>
<td>1,107,182</td>
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<tr>
<td>OEC center 2009-10</td>
<td>1,107,182</td>
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<tr>
<td>2.21% growth</td>
<td>3,079,583</td>
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<td>Expenditure savings/Vacant positions savings</td>
<td>2,812,277</td>
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<tr>
<td>Total</td>
<td>15,621,019</td>
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<td>Beginning balance 7/1/2010</td>
<td>32,190,876</td>
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<td>Ending balance 6/30/2011</td>
<td>$ 47,811,895</td>
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<td>2010-11 Second Principal Apportionment 6/17/11 Deficit</td>
<td>(732,517)</td>
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</table>
RSCCD Budget

- Ending/beginning balance is being used to 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
- Multi-year projections demonstrate this
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

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<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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<tr>
<td><strong>Total Revenue</strong></td>
<td>135,502,156</td>
<td>135,502,156</td>
<td>135,502,156</td>
<td>135,502,156</td>
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<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>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$38,163,936</td>
<td>$25,485,673</td>
<td>$8,650,572</td>
<td>($12,585,945)</td>
</tr>
</tbody>
</table>
Risks and Concerns

- Imbalanced state budget
  - DOF and LAO must determine by December 15, 2011 whether Trigger 1 and/or 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)

- Mid-year expenditure adjustments and reductions very difficult

- Managing FTES generation very important in a period of workload measure reductions (negative growth)
**Risks and Concerns**

- We can expect continued apportionment deferrals (IOU’s) if state needs to make additional reductions to Prop 98
  - State may not be able to buy back these cash deferrals for a long time
  - Continuing cash flow concerns

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