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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>CCC COLA</th>
<th>Statutory</th>
</tr>
</thead>
<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>
<td>2.41</td>
</tr>
<tr>
<td>2005-06</td>
<td>4.23</td>
<td>4.23</td>
</tr>
<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>
</tr>
<tr>
<td>2008-09</td>
<td>0.00</td>
<td>5.66</td>
</tr>
<tr>
<td>2009-10</td>
<td>0.00</td>
<td>5.02</td>
</tr>
<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>
</tr>
</tbody>
</table>

- 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 15\textsuperscript{th}
  - DOF has indicated both triggers likely
  - DOF can predict more expected tax revenues in second half of budget year
  - Expect DOF projections before December 15\textsuperscript{th}
  - Governor’s Proposed Budget due January 10\textsuperscript{th}

- 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 last week 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
Orange County vs. Sacramento

- 2011-2012 State Budget Act eliminated $48 million in annual VLF set aside OC has received since bankruptcy for repayment of “bankruptcy bonds”

- On November 10, 2011 OC Supervisor’s direct OC Auditor-Controller to reallocate property taxes according to the amount the County of Orange should receive under Revenue & Taxation Code 97.70
  - Taking back $73 million in VLF
  - Redirects Educational Revenue Augmentation Funds (ERAF) from schools to the county
Orange County vs. Sacramento

Reallocation of Property Taxes

- $73 million VLF (ERAF) fees kept by OC
- VLF fees were used for K-14 property tax revenue (apportionments)
  - “triple flip”
  - Creates shortfall in property taxes for K-14
  - K-12 education has property tax backfill
  - Community colleges do not receive backfill
    - Direct reduction in apportionment revenue
    - Will be applied as a system wide deficit to apportionments
    - Approximately $12 to $14 million
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>
<th></th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Not Included in the budget for FY 2010-11</td>
</tr>
<tr>
<td>Workload reduction and deficit</td>
<td>$ 7,514,795</td>
</tr>
<tr>
<td>OEC center 2010-11</td>
<td>1,107,182</td>
</tr>
<tr>
<td>OEC center 2009-10</td>
<td>1,107,182</td>
</tr>
<tr>
<td>2.21 % growth</td>
<td>3,079,583</td>
</tr>
<tr>
<td>Expenditure savings/Vacant positions savings</td>
<td>2,812,277</td>
</tr>
<tr>
<td>Total</td>
<td>15,621,019</td>
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<tr>
<td>Beginning balance 7/1/2010</td>
<td>32,190,876</td>
</tr>
<tr>
<td>Ending balance 6/30/2011</td>
<td>$ 47,811,895</td>
</tr>
<tr>
<td>2010-11 Second Principal Apportionment 6/17/11 Deficit</td>
<td>(732,517)</td>
</tr>
</tbody>
</table>

- 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)
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 as soon as possible

- 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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>$46,510,630</td>
<td>$38,163,936</td>
<td>$25,485,673</td>
<td>$8,650,572</td>
</tr>
<tr>
<td>Total Revenue</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>Total Expenditure</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>Surplus/ (Deficit)</td>
<td>(8,346,694)</td>
<td>(12,678,263)</td>
<td>(16,835,101)</td>
<td>(21,236,517)</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>$38,163,936</td>
<td>$25,485,673</td>
<td>$8,650,572</td>
<td>($12,585,945)</td>
</tr>
</tbody>
</table>
RSCCD Budget Allocation Model (BAM)

- Developed originally in 1998-1999
- Budget Allocation and Planning Resource (BAPR) Committee formed
  - Meets almost monthly
  - BAPR Workgroup works on more technical issues
  - District Enrollment Management Committee (DEMC) reviews and recommends enrollment/FTES targets to BAPR
- BAM acknowledges “fixed costs” as first priority funding
RSCCD Budget Allocation Model

- **Fixed Costs** – “expenditures that must be met independent of revenue production in any fiscal year”

- Unallocated funds (after fixed costs are budgeted) are considered “Discretionary”
  - Distributed based on campuses projected target FTES with District Office Operations receiving 16.48% for centralized services
RSCCD Budget Allocation Model

Discretionary Costs

- “costs that may be affected by the production of FTES in a given fiscal year;”
- “costs that an operational unit within the district has control or discretion over”
RSCCD Budget Allocation Model

- District Office costs include:
  - District wide cost of IT services
  - District wide cost of Safety/Security
  - District wide cost of Publications

- BAPR recommends Budget Assumptions to Chancellor

- Chancellor reviews and recommends to Board of Trustees
Questions?