

## 2012-13 FINAL BUDGET

### OVERVIEW

The 2011-12 Final Budget is based on the appropriations for community colleges contained in the State Budget that was adopted on June 27, 2012. This was the second time in a row that the State had a balanced budget on time. A major factor for this achievement was the passage of Proposition 25 which provided for an adopted budget through a simple majority vote instead of the two thirds vote (super majority) required in prior years. In addition, Proposition 25 expedited the process as the legislature forfeits pay and per diem for each day a budget is late.

The State's fiscal problems continue to impact the College's budget. The State was facing a \$15.7 billion budget deficit this year, an increase of \$6.5 billion more than the estimate in January. This increase resulted from current year revenues being \$4.3 billion below January projections. In addition, federal revenues and court decisions have removed about \$1.7 billion in potential solutions. The State budget is based on a tax initiative passing on the November ballot. If the initiative does not pass, K-14 is slated for mid-year budget cuts of approximately \$5.4 billion. Community Colleges would be cut approximately \$550 million.

The College's Final Budget is based on the tax initiative not passing in November. In this scenario, the projected mid-year budget cut to our state apportionment revenues is \$4.6 million. In addition to this reduction, other adjustments were required to the estimated revenue line items. Non-resident tuition and the Blue Shield rebate were reduced by \$300,000 and \$130,000 respectively. State mandated cost revenue was increased \$392,000 based on the \$28/FTE allocation provided in the State Budget. Finally, other miscellaneous revenue line items were reduced another \$100,000. Overall, the College is faced with over \$4.7 million less in revenue in 2012-13 as compared to last year.

The Final Budget required about \$1.15 million in augmentations, primarily from step and column (\$544K) and health and welfare (\$461K). PERS benefits (\$87K) and the CSEA reallocation reserve (\$50K) were also augmented. Budget reductions occurred in state unemployment insurance (\$283K), utilities (\$125K) and legal (\$27K).

The Rollover Budget, which is the initial budget created in the College's budget development process, funded all vacant positions and restored the pay cuts and budget cuts implemented in 2011-12. This budget began with a \$14.3 million deficit. The Budget Committee has identified about \$9.8 million in budget solutions to the Rollover Budget. Class offerings were reduced by 200 classes resulting in a \$900K savings. Vacant positions were reviewed and left unfilled resulting in an additional \$3.84 million in savings. \$645K was saved due to our 2013 Blue Shield PPO renewal rate being reduced by 9.78%. Exempt Cost line items were reduced \$214,000 over initial levels and the discretionary accounts over \$6,000 were reviewed and the budget was cut \$1.6 million. The five percent general reserve was reduced \$335,000 and our ending fund balance was \$900,000 over initial projections. Finally, the pay concession agreed by CSEA (3.33% pay cut) and the Manager's Group (5% pay cut) resulted in approximately \$937,000 in savings. These pay cuts should accommodate the needed savings required if the tax initiative passes.

The College ended the 2011-12 fiscal year with a \$4.9M ending balance (6.34%). This was a \$1.2M reduction from 2010-11 and resulted primarily from the unexpected mid-year cut of enrollment fees. The Final Budget established the five percent (5%) General Reserve to ensure that it would comply with State and accreditation recommended levels. However, with the budget cuts that were required this year, the General Reserve was reduced \$335K.

The College's enrollment declined 1,425 FTES in 2011-12. A decline was anticipated as the College cut its Winter intersession and reduced its Summer intersession. This action was taken to address the reduction in workload that was part of the 2011-12 State Budget. The College was able to reach its base enrollment targets but with only 35 FTES of unfunded enrollment, we must closely set our class levels to ensure we do not go into decline. If the tax initiative does not pass, workload will be reduced an additional 7.3%. The Fall 2012 semester was reduced by 100 classes which is about a 5.6% reduction.

The Final Budget still has an approximate \$4.5 million deficit. The College is negotiating with the Guild on a pay concession and with all groups on a plan if the tax initiative does not pass. **Since negotiations have not been finalized with the unions, the Final Budget was balanced by assuming a change to our health plans (\$350K), the elimination of the Summer 2013 session (\$600K), a reduction of 500 classes in Spring (\$2.05M), a one month reduction in the work year for approximately 100 employees (\$260K) and the layoffs of other managers and classified employees (\$1.2M). Once negotiations are finalized, these line items will be corrected.**

## STATE FINANCES

Governor Brown released his 2012-13 budget proposal on January 5, 2012, rather than on January 10<sup>th</sup>, as has been the custom. The early release resulted from budget documents inadvertently posted to the Department of Finance website. At this time, the State was facing a \$9.2 billion deficit which required the Governor to make significant cuts in health and human services. In addition, this budget was contingent upon the passage of a tax initiative that would be placed on the November 2012 general election. There were no reductions proposed for the California Community Colleges. However, if the tax initiative fails, California Community Colleges would be subject to significant mid-year trigger cuts.

The Governor's tax initiative would increase the sales tax by 0.5% and increase the personal income tax for taxpayers earning over \$250,000. These increases would be in effect for the next four years and would generate an estimated \$6.9 billion. If the tax initiative passes, California Community Colleges would receive the following:

- Increase of \$218.3 million to partially reduce the \$961 million in current deferrals.
- Additional \$12.5 million to fund a new mandates block grant.
- Offsetting funding for shortfalls in fee revenues.
- Current year reduction of \$146.9 million in apportionments offset by identical increase in property tax revenues resulting from the elimination of redevelopment.
- No fee increase.

In addition to these budget allocations, the Governor's budget made a number of policy recommendations which include:

- Consolidation of nearly all categorical programs and flexibility to use funds for any categorical program purpose.
- Preserve core mandate programs and functions, but eliminate unnecessary mandates and create a mandate block grant.
- Implement a Student Success Initiative that will make annual General Fund augmentations for higher education contingent upon each institution achieving the Administrations' priorities, including improvements in specific accountability metrics such as graduation rates, time to completion, transfer students enrolled, and successful credit and basic skill courses completed.

The critical component of the Governor's budget proposal is the passage of the tax initiative in November 2012. If the tax initiative does not pass, the Governor has listed a set of trigger cuts that would be made mid-year. Total trigger cuts would equal \$5.4 billion with the brunt assessed to Proposition 98 funding (\$4.8 billion). The trigger cuts include:

- Proposition 98: \$4.8 billion
- UC's and CSU's: \$200 million each
- Courts: \$125 million
- Other: \$28.1 million

For California Community Colleges, the entire \$218 million augmentation proposed to reduce the deferral would be lost. In addition, an estimated \$264 million would be cut from state apportionment base funding. This reduction would be tied to a 5.56% reduction in workload. Glendale College would lose approximately \$3.5 million if the initiative fails.

### **“February Surprise:”**

In February, the Chancellor's Office released an email notifying districts of an estimated \$100 million enrollment fee shortfall in 2011-12. The enrollment fee was increased at the beginning of the year from \$26/unit to \$36/unit. As a result of this increase, the state increased its estimate of revenue to help balance its budget. Unfortunately, the additional revenue did not materialize due to both the increased number of BOG fee waivers and the classes that districts cut in an effort to balance their budgets. A shortfall in enrollment fees is similar to a shortfall in property taxes in that there is no automatic backfill. Each college district within the state is required to take its proportionate cut in funding. The state is also projecting a \$49 million property tax shortfall for a combined deficit of \$149 million for community colleges. For Glendale College, these deficits result in a projected \$2 million unanticipated reduction in funding for 2011-12.

### **Tax Initiatives:**

Originally, there were three potential tax initiatives that would go before the voters in November:

1. **Governors Initiative:** The Governor's Initiative is a four-year plan that would raise approximately \$6.8 billion by increasing the sales tax by 0.5% and raising the tax rates on those individuals making over \$250,000. All of the funds would be dedicated to K-12 schools and community colleges. Community colleges would be guaranteed 11% of the new funds. These

increases would expire in 2017-18.

2. **California Federation of Teachers (CFT) Initiative:** This initiative would raise approximately \$6 billion per year by increasing the tax rates on millionaires by 2% to 3%. The additional funds would be allocated to K-12, community colleges, California State Universities, and Universities of California. Community colleges would receive \$480 million. Unlike the Governor's proposal, this initiative is not temporary and would not count toward the Prop 98 guarantee.
3. **Munger Initiative:** The Munger initiative would increase all personal income tax levels and would dedicate all funding for pre-kindergarten through 12<sup>th</sup> grade education. Community colleges would not receive any additional funding.

There was a concern that multiple initiatives on the ballot would result in none of the initiatives passing. The Governor and the CFT met and agreed to a compromise measure that will be placed on the November ballot. The compromise measure is a combination of the Governor's initiative and the CFT's "Millionaires' Tax." The new measure will increase the sales tax by one-fourth (1/4%) percent rather than one-half (1/2%) and will increase income taxes on high income earners by a greater percent than what was in the Governor's initiative. The compromise will also have the income tax increase last for seven years instead of five years. The Department of Finance estimates that the new measure will bring in approximately \$2 billion more in revenue than the Governor's initiative. Both initiatives have received the required number of signatures and will be on the November ballot.

### **May Revise:**

On May 14, 2012, Governor Brown released his May Revision budget proposal. The budget deficit, which in January was \$9.2 billion, was now estimated at \$15.7 billion. The difference was due to a combination of revenues coming in below estimates and higher than anticipated expenses. The additional revenue projected from the compromise tax initiative increased the Proposition 98 guarantee resulting in an additional \$95 million for California Community Colleges. The Governor proposed that this additional funding be used to further reduce the deferred payments to community colleges bringing the total reduction to \$313 million (\$218 million proposed in January). In preliminary meetings of the Assembly and Senate Budget Committees, the Legislature seems inclined to allocate additional funding to community colleges if the November tax initiative passes rather than use the total amount of new funding to buy down the deferral. The administration still wanted to use some of the funding to reduce the deferral, but there was recognition of the advantages of using at least some of the additional funding to increase access. The last proposal allocated one third of the additional funding for the deferral, one third for access, and one third for the Student Success Task Force recommendations. However, this proposal was not implemented when the State Budget was adopted.

Under the May Revise, the Governor proposed a number of accounting adjustments including swapping out general fund apportionments for projected increased property tax revenues anticipated to emerge with the elimination of redevelopment agencies. The Governor proposed the swap for both the current year (\$116 million) and the budget year (\$191 million). Such a move would create a significant risk to community college funding since there is not an automatic backfill for property tax revenue shortfalls.

The Governor continues to pursue his proposal to consolidate categorical funding and alters his mandates block grant reform proposal. Mandate cost funding would be set at \$28 per FTEs and the current claiming process would be eliminated.

If the November initiative fails, K-14 education is slated for a larger mid-year trigger budget cut. California Community Colleges would lose the \$313 million in additional funding mentioned earlier and then take an additional base cut of approximately \$300 million. A base reduction of this magnitude represented an approximate workload reduction of 6% and a \$4.1 million loss of revenue for our college.

The \$149 million current year deficit in property tax and enrollment fees has improved. The property tax shortfall has been eliminated due to the San Mateo County Community College District moving to basic aid status. This change frees up approximately \$49 million leaving a current year enrollment fee shortfall of approximately \$100 million. Glendale College is still projected to lose approximately \$1.3 million in funding.

### **Adopted State Budget**

On June 27, 2012, the Governor signed the State Budget. This was the second year in a row that the budget was approved on time. It was also the second year in a row that the budget contained mid-year triggers to cut the budget if revenues fail to meet estimates. This budget relies on the voter approval of a November ballot initiative. If the initiative fails, an additional \$6 billion will be cut from the State Budget primarily on education K-14 (\$5.4 billion) and the Universities of California (\$250 million) and Cal State Universities (\$250 million). The major components for California Community Colleges is as follows:

- No new reductions unless the November tax initiative fails.
- \$50 million in growth funding to restore prior year workload reductions.
- \$159.9 million to buy down apportionment deferrals.
- Rejected the Governor's proposal to consolidate categorical programs.
- Approval of a new mandates block grant that will provide community colleges the option of \$28 per FTES to cover mandated costs. Otherwise, community colleges may go through the normal claiming process for reimbursement.
- Full backfill of Redevelopment Agency tax revenues in both the current year and budget year. This alleviates a major risk for community colleges as shortfall in these funds (\$116M in 2011-12 and \$341M in 2012-13) would normally result in each college taking its proportionate share of the deficit.

As noted above, if the November initiative fails, K-14 is slated for a trigger cut of nearly \$5.4 billion. California Community Colleges would lose the \$209.9 million in new funding approved in the budget (\$50 million to restore workload and \$159.9 million for buying down the deferral) and would take an additional base cut of \$338.6 million. Similar to language included for base cuts made in the 2008-09 and 2010-11 Budget Acts, this base cut will be allocated as an approximate 7.3% workload reduction. Glendale College would lose an additional \$4.6 million in funding if this initiative does not pass. Clearly, this trigger cut would be a devastating hit to our college.

## **BUDGET DEVELOPMENT PROCESS**

The 2012-13 Final Budget was also developed along the guidelines of the Administrative Regulation 3110, District's Budget. These guidelines included the following:

- 1) Each functional unit (President's Office, Instruction, College Services, Administrative Services, Human Resources, and Information Technology) receives an allocation based on the preliminary revenue projections developed by staff and reviewed with the Budget Review Committee. After funding a five percent (5%) General Reserve and the "Exempt Cost" line items (expenses that benefit the entire college and cannot be controlled by the TOPS manager e.g. utilities, insurance and benefits), a rollover budget (the "turn-around" document) is distributed to the TOPS managers. TOPS managers can transfer funds as long as their total budget fits within their allocation.
- 2) A new process was developed for funding budget requests in an effort to address the Accreditation Report and to strengthen the link between planning and resource allocation. Items that need additional funding are initiated through a Program Review report or College plan. These requests are reviewed by either the Institutional Planning Coordinating Committee (IPCC) or program Review for validation. After validation, the requests are forwarded to their respective Governance Committee (Academic Affairs, Student Affairs, Administrative Affairs, and CCCC's). The prioritized requests are then forwarded to the Budget Committee for funding.
- 3) The Budget Committee reviews all requests to determine which ones are "Must Do" requests and provides funding.
- 4) An expanded Budget Committee will meet to review the other requests from each Governance committee to develop a consolidated list of budget request in priority order.

Based on these guidelines, \$1.57 million of Exempt Cost augmentations were initially made. These augmentations were reviewed and were reduced by almost \$850,000 in the Final Budget. A detailed list of the Exempt Cost augmentations is discussed later in this document.

Last year a budget sub-committee was formed to identify savings within the rollover budget by reviewing all discretionary accounts (permanent position and benefit accounts excluded) with a budget over \$7,500. TOPS managers with accounts within these parameters were required to justify and explain the use of these accounts to the sub-committee. This year the threshold was reduced to \$6,000. Through this process, the College was able to cut \$1.6 million out of the Final Budget for reallocation.

The Strategic Master Plan Committee (Team A) has approved annual goals which will be used by the Expanded Budget Committee to prioritize funding for new budget requests. These annual goals are not in priority order and are as follows:

- 1) Evaluate the policy of repeatability for credit courses and how students get priority registration.
- 2) Scheduling will respond to data, including a review of room ownership.
- 3) Develop a framework for defining programs in terms of how they meet GCCD's primary, secondary, and tertiary missions. This stratification provides the relative value of programs and services to GCCD's mission.
- 4) Streamline the transition from Non Credit to credit.

- 5) The College will continue its work in competing for grants and pursue additional business partnerships that will provide additional funding.
- 6) The College will allocate on-going funding so that the replacement of equipment and technology can be scheduled and planned based on industry standards.
- 7) The College will implement its two-year projection into its budget process.
- 8) Investigate means of increased coordination and communication among the diverse student labs, including technology development and training with the goal of more consistent data collection, standard assessments (SLOAC), and possible economies of scale.
- 9) The College will utilize SLOACs at the course, program, and institutional levels by 2012 to achieve proficiency status according to the ACCJC rubric and to direct college planning and program improvement. The college will also ensure that faculty are trained and will implement e-Lumen to organize assessment data.
- 10) Faculty will continue to explore, evaluate and implement delivery modes and methods of instruction that meet the objectives of the curriculum and support student needs.
- 11) The College will strengthen governance relationships and promote trust by an ongoing self-evaluation process of the state of shared governance including an annual leadership survey.

The Budget Committee has begun reviewing the new budget requests for 2012-13. So far the committee has identified \$165K in “Must Do” augmentations:

4.5 Full time faculty hires	\$120,000	*
Safety equipment required by OSHA	15,000	
Math white board markers	2,500	**
Assessment tests	24,000	
Modular Building at Stengel field	<u>3,276</u>	
Total	\$164,776	

\*Funded from Lottery restricted funds

\*\*Additional funds needed after adjunct backfill funds eliminated.

No reserve has been set up for these budget requests. However, there are two new faculty vacancies, one counselor who will be half funded by a grant, and two new classified vacancies. It is hoped that the savings from these positions will be able to fund the above ‘Must Do’ items without further budget cuts.

The funding of the “High Priority” requests will be determined after the November election when it will be known if the tax initiative is successful. If additional funds are available, the Expanded Budget Committee will meet to prioritize and fund these “High Priority” budget requests.

## SUMMARY ALL FUNDS

The following chart summarizes the eight funds by which the college tracks revenues and expenditures:

Expenditure Summary All Funds (in \$ million)			
Fund	2010-11 Actual	2011-12 Actual	2010-11 Budget
General Fund, Unrestricted	80.951	77.187	72.439
General Fund, Restricted	15.140	14.368	20.547
Student Financial Aid	29.321	31.110	32.745
Capital Projects	1.133	1.084	1.915
Self Insurance	2.634	2.775	2.905
Cafeteria	0.885	0.780	0.956
Professional Development Center	1.064	1.288	2.283
Go Bond – Series D	10.878	1.414	17.520

The Unrestricted General Fund is discussed in detail on the following pages. The following is a brief summary of the other funds:

1. **General Fund, Restricted:** The Restricted General Fund contains those programs whose funds are restricted by either law, an external funding agency or Board of Trustee action. The 2012-13 budget is approximately \$6.2 million over what was spent in 2011-12. This increase is primarily from the funding of two new Title V grant, the transfer of the GASB 45 and loadbank reserves out of the Unrestricted General Fund and the 2011-12 ending balance.
2. **Student Financial Aid:** The Student Financial Aid program has increased significantly over the last three years. The budget is \$1.6 million higher than last year primarily due to the increased number of students qualifying for PELL awards and the loans that are being issued.
3. **Capital Projects:** The Capital Projects Fund budget is \$830K over what was spent last year. This difference is due to the ending balance and the State Construction planning funds that are budgeted for the Lab/College Services Building.
4. **Self Insurance:** The Self Insurance fund's budget is approximately the same as last year expenditures. This fund is financially sound with \$134,000 in reserve.
5. **Cafeteria:** The Cafeteria needed \$100,000 of support in 2011-12. This was slightly less than the \$110,000 required in 2010-11. This is a significant improvement given the reduction in student workers and staff and the elimination of the Winter intersession.
6. **Professional Development Center:** The Professional Development Center's 2012-13 budget is approximately \$1 million over what was spent in 2011-12. This is a result of its 2011-12 ending balance.



7. **GO Bond Fund Series E:** The 2012-13 Budget includes the proceeds from the remaining GO Bond funds. There are currently \$14 million of bonds that are unissued primarily for the College Services/Lab Building. These bonds are expected to be issued this year with the State funding appropriated for this project.

**ENROLLMENT**

The College’s enrollment declined in 2011-12 by over 1,400 FTEs. This is 4,700 FTEs less than the College’s peak of 20,057 FTEs in 2009-10. This decline was anticipated as the College’s workload was reduced by the 2011-12 State budget initially be 6.2% and an additional 1.4% at mid-year with the additional budget cuts. The College adjusted its schedule accordingly by eliminating the Winter intersession and reducing the Fall, Spring, and Summer sessions. The College is now only 35 FTE’s over cap, so enrollment must be closely monitored in order to meet base enrollment numbers. Following is a summary of enrollment:

Type	2010-11	2010-11	Variance
Credit	13,394	12,331	(1,063)
Noncredit	394	275	(119)
Career Dev./College Prep	2,376	2,126	(250)
Non-resident	<u>616</u>	<u>623</u>	<u>7</u>
Total	16,780	15,355	(1,425)

If the tax initiative does not pass in November 2012, the College’s funding will be reduced by \$4.6 million with an additional associated workload reduction of 7.3%. Enrollment will decline again. Fall 2012 has been reduced by 100 classes under the assumption that the tax initiative will not pass. These classes will be brought back in Spring 2013 if the tax initiative does pass.

**UNRESTRICTED GENERAL FUND REVENUES**

The College’s revenue decreased over \$4.7 million from last year’s budget. Following are the major changes:

Revenue Source	Amount
General Apportionment Reduction	(\$4,120K)
Mandated Cost Claims	\$392K
Nonresident Tuition	(\$300K)
Other Local	(\$539K)
Blue Shield Rebate	<u>(\$130K)</u>
Total	(\$4,697K)

The following chart provides a summary of proposed revenues for the Unrestricted General Fund.

Unrestricted General Fund Revenues  
(in \$ millions)

Item	2010-11 Actual	2011-12 Actual	2012-13 Tentative	2011-12 Final
<b>General Revenues:</b>				
Base	72.813	69.292	64.780	69.297
COLA	0.000	0.000	0.000	0.000
Growth	1.671	0.000	0.000	0.000
Deficit	<u>(0.395)</u>	<u>(1.628)</u>	<u>0.000</u>	<u>(4.638)</u>
Total General Revenues	74.089	67.664	64.780	64.659
Prior Year Adjustment	0.082	0.240	0.000	0.000
Federal Funds	0.063	0.001	0.001	0.001
Lottery	1.965	1.880	1.950	1.950
Part Time Parity	0.349	0.349	0.349	0.349
Part Time Faculty	0.116	0.118	0.115	0.118
Other State	0.617	0.159	0.062	0.466
Other Local	0.226	0.419	0.261	0.261
Non-Resident Tuition	2.738	2.693	2.600	2.600
Other Student Fees	0.525	0.419	0.363	0.363
General Purpose Block Grant	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Total Income	80.770	73.942	76.730	70.767
Incoming Transfers	0.459	0.566	0.403	0.403
Beginning Balance	<u>5.812</u>	<u>6.090</u>	<u>4.046</u>	<u>4.895</u>
Total Available	87.041	80.598	74.930	76.065
Total Appropriations	<u>80.951</u>	<u>75.703</u>	<u>70.970</u>	<u>76.065</u>
Ending Balance	<u>6.090</u>	<u>4.895</u>	<u>3.960</u>	<u>3.625</u>

An analysis of the 2012-13 revenues are as follows:

1. **General Revenues:** General revenues consist of base, COLA, growth and the system-wide deficit in property taxes and enrollment fees. General revenues will decrease approximately \$4.6 million from our base levels. This decrease will occur if the tax initiative in November is not successful and mid-year budget cuts are triggered. This apportionment reduction is tied to a reduction in our base workload at an estimated amount of 7.3%.
2. **Prior Year Adjustment:** An estimate is not made for Prior-Year Adjustment because we have no basis to make such an estimate. These funds are a result of a number of factors including how well other districts do in making their growth targets and the amount of property taxes statewide. We will know this number in February 2013 when we receive our First Principal Apportionment report.

3. **Other State Revenue:** The 2012-13 State Budget provides a block grant for mandated cost claims allocated at \$28/FTEs. The College does have the option of filing claims as currently done. The \$28/FTE option will provide an additional \$392,000 a year in revenue. The Other State Revenue line item was augmented by this amount.
4. **Non-Resident Tuition:** Non-Resident tuition line item has been reduced \$300K to bring it closer to the actual collections.
5. **Other Local:** The Other Local category was budgeted at \$160K less than what was received last year. This category includes interest received on our TRANS bonds that we issue for cash flow purposes. We normally don't budget the interest earned or the interest paid on our TRANS issues as they normally offset each other.
6. **Interfund Transfers:** In 2011-12, the College transferred \$483K of money received from the Blue Shield rebate to help balance the budget after agreement with the unions was reached. Although agreement has not been reached with all groups yet, the Final Budget assumes the 2011 Blue Shield rebate in the amount of \$352K will be used for the budget deficit.
7. **Beginning Balance:** The College's ending balance decreased by almost \$1.2 million from \$6.09M to \$4.90M. This decrease resulted from the "February Surprise" where enrollment fees fell short of budget by approximately \$100 million statewide and the college lost \$1.2 million in funding. The ending balance of \$4.895M was 6.34% if expenditures.

## UNRESTRICTED GENERAL FUND APPROPRIATIONS

The College began its appropriation adjustments by establishing a five per cent (5%) General Reserve in the amount of \$3,625,000, a \$335,000 decrease resulting from our reduced budget. Then, \$707,000 of Exempt Costs augmentations were made. All other 2012-13 budget requests are in-process for funding.

**Exempt Costs:** Exempt costs are defined as costs that benefit the college as a whole and which a manager has no control over the amount. Examples would include employee benefits, collective bargaining changes, utilities etc. The major exempt cost items that were augmented in this budget are as follows:

<u>Augmentation</u>	<u>Amount</u>
Step & Column	544,000
Health Insurance	436,000
Dental Insurance	25,000
Utilities	(105,000)
Postage	(20,000)
Legal (State Lobbyist)	(27,000)
State Unemployment Insurance	(283,000)
PERS retirement	87,000
Reallocation Reserve	<u>50,000</u>
Total	707,000

- 1) **Step and Column Increases (\$544,000):** Step and column increases are the annual pay increases for all employees as they move to a higher step on their salary schedule or to a higher range.

- 2) **Health Insurance (\$436,000):** The 2013 renewal rates were received from all carriers. The Blue Shield PPO rate was reduced 9.78%, the Blue Shield HMO rate were held constant, and Kaiser’s rates went up 12.43%. Overall, this resulted in a \$436,348 augmentation. Originally, the budget assumed a 10% increase in renewal rates and a \$1.065M augmentation to the account.
- 3) **Dental Insurance (\$25,000):** The 2011-12 projected expenditure for dental claims exceeded the budget by \$25,000. This augmentation is needed to cover this overdraft.
- 4) **Utilities (-\$105,000):** The budgets for Natural Gas (\$40,000), Electricity (\$50,000) and Telephone (\$15,000) were reduced based on actual expenditures in 2011-12.
- 5) **Postage (-\$20,000):** The Postage budget was reduced based on actual expenditures in 2011-12.
- 6) **Legal (-\$27,000):** The Legal line item was reduced due to the cancellation of the State lobbyist’s contract.
- 7) **State Unemployment Insurance (-\$283,000):** The State decreased its state unemployment insurance rate from 1.61% to 1.10% to reflect the improvement in the labor market. This will reduce our costs by \$283,000.
- 8) **PERS Benefits (\$87,000):** The PERS rate will be 11.417% in 2012-13 an increase of 0.417% over the current 10.923% rate. This augmentation will accommodate the increase.
- 9) **Reallocation Reserve (\$50,000):** The CSEA contract provides \$50,000 for salary reallocation adjustments each year with a maximum bank of \$150,000. This augmentation is required to comply with the CSEA contract.

**2012-13 Reserves:**

Following is a summary of reserves and how they are funded:

Reserve	Ongoing Funds	One-Time Funds	Total Funds
Mandatory Reserves:			
General Reserve (5.04%)		3,625,000	3,625,000
Contingency Reserve (0.56%)	<u>400,000</u>	<u>0</u>	<u>400,000</u>
Subtotal Mandatory (5.60%)	400,000	3,625,000	4,025,000
Academic Senate PFE grants	3,037		3,037
Classified Reallocations	<u>0</u>	<u>50,000</u>	<u>150,000</u>
Total Reserves	<u>403,037</u>	<u>3,675,000</u>	<u>4,078,037</u>

## TWO YEAR FORECAST

The following projection was prepared to show where the College will be in 2013-14 and 2014-15 using the following assumptions:

- 1) Tax initiative does not pass in November
- 2) No additional State cuts in 2013-14 or 2014-15
- 3) No Enrollment Fee/Property Tax shortfall in 2013-14 or 2014-15
- 4) College will realize 1% total savings within operating budget (99% of budget expended)
- 5) Historical cost trends will continue (step and column, employee benefit rate increases etc.).
- 6) Growth will be funded at 2.00% in 2013-14 and 2014-15.
- 7) No COLA or other new state money will be received in 2013-14 and 2014-15
- 8) Vacant positions will not be filled.
- 9) No new major programs/needs requiring significant budgets

### Unrestricted General Fund Revenues (In \$ millions)

Category	2012-13 Projection	2013-14 Projection	2014-15 Projection
Base Revenues	\$64.659	\$64.659	\$65.952
Growth	<u>0.000</u>	<u>1.293</u>	<u>1.319</u>
Total Base Revenue	\$64.659	65.952	67.271
Lottery	1.950	1.950	1.950
Other State	0.933	0.933	0.933
Nonresident Tuition	2.600	2.600	2.600
Other Student Fees	0.363	0.363	0.363
Other Local	0.261	0.261	0.261
Interfund Transfer	<u>0.403</u>	<u>0.050</u>	<u>0.050</u>
Total Revenues	71.169	72.109	73.428
Beginning Balance	<u>4.895</u>	<u>4.349</u>	<u>2.793</u>
Total Available	76.064	76.458	76.221
Base Appropriations	71.715	71.715	73.665
Step/Column	0.000	0.550	0.550
Benefits	0.000	1.000	1.000
Other Exempt Costs	0.000	0.200	0.200
“Must Do” augmentations	<u>0.000</u>	<u>0.200</u>	<u>0.200</u>
Total Appropriations	<u>71.715</u>	<u>73.665</u>	<u>75.615</u>
Ending Balance	<u>4.349</u>	<u>2.793</u>	<u>0.606</u>

The two year projection shows that our fund balance will go below the five percent level in 2013-14. This situation results from the use of our reserves to balance the 2012-13 budget. The use of reserves is a one-time source of funds that must be replaced in the subsequent year. This situation also results from the fact that our expenses are increasing much more rapidly than our revenues. For the past several years, we have had small or no growth caps which have produced minimal new growth revenues. The only other major discretionary revenue is COLA. Because of these conditions, budget cuts such as pay

concessions will be required to balance future budgets. The forecast shows that the College will continue to be in a cost cutting mode until it begins to receive State COLAs or other discretionary funding. Traditionally COLAs have been used for collective bargaining, but with minimal growth revenue, this will no longer be the case as our growth revenues are not adequate to fund our inflationary costs.

## **BUDGET COMMITTEE ACTIONS**

The Rollover Budget started with a deficit of approximately \$14.313 million. The Budget Committee has identified \$9.757M in budget solutions as follows:

- 1. 200 Class Reductions in Fall 2012 and Spring 2013 (\$900,000):** If the tax initiative does not pass, the College's workload will be reduced approximately 7.3%. These class cuts were made to partially address this reduction. One hundred classes have been cut in Fall 2012. If the tax initiative does pass, these classes will be added back in Spring 2013 to meet base enrollment levels.
- 2. Vacant Positions (\$3,839,000):** All existing vacancies were reviewed and approval was given to fill those positions that were most critical and to provide adequate levels of backfill for those positions which will be left vacant. Over 100 vacant positions were reviewed resulting in \$3.8M in savings.
- 3. Budget Reallocation Sub-Committee (\$1,600,000):** The Budget Reallocation Sub-Committee reviewed all discretionary accounts that had a budget in excess of \$6,000 for potential budget savings. The sub-committee reviewed more accounts this year as the threshold last year was \$7,000. Approximately \$ 1.6M in budget cuts were recommended to the Budget Committee and approved for cutting.
- 4. Exempt Costs (\$214,000):** The Exempt Cost line items were reviewed and additional cuts were made based on updated information or actual expenditures in 2011-12. The PERS line item was reduced \$125K as the 2012-13 rate was set at a level below the original projection (11.417% vs original estimate of 12.123%). Utilities and postage were cut an additional \$115K and the interfund transfer for dental benefits was increased \$25K based on 2011-12 expenditure levels.
- 5. Health Renewal (\$645,000):** The health insurance line item was originally augmented \$1.065M based on an estimated ten percent increase in premiums. The 2013 Blue Shield PPO rates were reduced 9.78% and the Blue Shield HMO rates had no increase. These rates resulted in an estimated \$645K savings.
- 6. Mandated Cost Revenue (\$392,000):** The 2012-13 State Budget established a block grant to pay mandated cost claims. Colleges are given an option of receiving a flat \$28/FTE allocation or to continue filing their claims as currently done. For 2012-13, the recommendation is to select the \$28/FTE which will provide approximately \$392K of additional revenue to the College.
- 7. CSEA 3.33% Pay Cut for 2012-13 (\$536,000):** CSEA has agreed to a 3.33% pay cut beginning July 2012 resulting in a \$536,000 savings.
- 8. Management Groups Five Percent (5%) Pay Cut for 2012-13 (\$401,000):** The Management Group has already agreed to a five percent (5%) pay cut beginning July 2012. This pay cut will provide a \$401,000 savings.
- 9. 5% General Reserve (\$335,000):** With the budget cuts that have been made, the general reserve can be reduced by \$335,000 and still meet the State recommended 5% reserve level.

## PENDING BUDGET ACTIONS

There are still several items that have not been resolved that will affect the 2012-13 budget. Following are those items:

- 1) **Tax Initiative:** The unknown component that will have the greatest impact on the budget is the passage of the tax initiative in November. If the initiative passes, the College will receive additional funding to buy down the apportionment deferral and restore prior workload reductions. If the tax initiative fails, an additional \$4.6 million in mid-year budget cuts are expected.
- 2) **Negotiation with Employee Groups:** The College has agreement with CSEA and the Management Group on a salary concession for 2012-13. Negotiations are in process with the Guild. The initial agreements with CSEA and the Management Group will balance the budget if the tax initiative passes. Additional actions will be required if the tax initiative does not pass. A one month workload reduction is currently being communicated to CSEA for approximately 100 employees. With the elimination of the Winter session and only one Summer session, there are periods of time when there is insufficient work for these employees.
- 3) **Health Plan Changes:** The College is reviewing a number of changes in health plans to provide budget savings. These options include switching carriers, changing plan benefits, and sharing the cost of premiums between the College and the employee.
- 4) **Funding of 2011-12 Budget Requests:** The Budget Committee has completed its review of the 2012-13 budget requests for “Must Do” items. The Committee is delaying the prioritization and funding of the “High Priority” requests until after the November election when it is known if the tax initiative is successful.

## BUDGET RISKS

This budget has unprecedented risks in its development. At the forefront is the tax initiative. If the initiative passes, additional revenue may be coming to the College. If it doesn't there will be mid-year budget cuts that will exceed over \$4.6 million to our College. Comparing best case to worst case scenarios is a difference of over \$600 million to California Community Colleges. Other risks in this budget are as follows:

1. The student fee increased to \$46 per unit effective with the Summer 2012 semester. If the revenue does not materialize again due to BOG waivers and class reductions, there will be a shortfall again in 2012-13.
2. Unions do not agree to any salary or benefit concession. The administration is developing a plan to balance the budget without any agreement at the table. It will require the elimination of Summer 2013 and approximately 500 class sections cut in Spring 2013. It will also require the layoff of classified and management employees.

## CONCLUSION

Proposition 25 which lowered the passage of the State budget to a simple majority from the two-thirds vote requirement and forfeited legislator's pay and per diem for each day the budget was late has significantly expedited the State's budget process. This year was the second year in a row that the State had an approved budget by June 30<sup>th</sup>. However, having a State budget approved on time does not mean that it is a good budget. This is also the second year in a row that the budget was adopted with potential mid-year trigger cuts. This year the cuts are dependent on the passage of the tax initiative (Proposition 30) on the November ballot.

The 2012-13 Final Budget was based on the tax initiative not passing and the College being hit with a \$4.6 million budget cut mid-year. This strategy was taken because it will be easier to add back services and cuts rather than make additional budget cuts mid-year when the options are limited. As a result, the College was faced with some very hard decisions in balancing this year's budget. The hiring freeze has continued with close to 100 positions being vacant. This has put a hardship on employees who are required to increase their workload at a time when they are also being asked for pay and benefit concessions.

Much work has been accomplished on the Final Budget. When the Rollover Budget was produced, all vacant positions were put back in the budget, the pay cut that employees took in 2011-12 was restored, and the Budget Reallocation committee budget cuts implemented in 2011-12 through the Budget Reallocation committee were restored. This budget started with a \$14.3 million deficit. Approximately \$9.8 million of budget solutions have been identified. A reduction of 200 class sections (\$900 thousand), not filling vacant positions (\$3.8 million), reviewing exempt cost line items and discretionary accounts with budgets over \$6,000 (\$2.6 million), budgeting mandated cost revenues (\$400 thousand), employee group negotiations (\$940 thousand) and reducing the general reserve to the five percent (5%) level and a higher ending balance than anticipated (\$1.2 million) have all helped in balancing this year's budget.

The College's Final Budget is still approximately \$4.5 million out of balance. The College is in the process of negotiating with the unions to balance this deficit. The College has reached agreements with CSEA and the Management Group that will balance the budget if the tax initiative passes. Guild negotiations are in process. The College does have a plan if agreement cannot be reached. This plan will put the college into decline and give the College another year to recover before its funding is reduced. This plan will only be implemented if the tax initiative does not pass and agreement cannot be reached with the unions on additional salary concessions. The Final Budget was balanced by implementing this plan as follows:

1. A one month workload reduction will be implanted in 2012-13 for approximately 100 employees (\$260 thousand).
2. Summer 2013 will be eliminated (\$600 thousand)
3. Five hundred (500) class sections will be cut from the Spring 2013 semester (\$2.05 million).
4. Full layoffs for classified and management staff (\$1.2 million).
5. Unions agree to health plan changes; change in carrier, plan benefits, or shared payment of premiums (\$350 thousand).



The College's budget problems will not end this year. Our budget was balanced by using our excess reserves over five percent. Fortunately, the College ended the 2011-12 year with a 6.34% fund balance. Approximately \$1.3 million of reserves were used to mitigate budget cuts and balance this year's budget. This action did not solve our budget problems but simply delayed it until next year unless the College realizes the same level of fund balance at the end of 2012-13. Our trend for increasing expenses continues. Salaries, benefits, utilities, insurance, and contracts continue to require additional financial resources even though we may not be adding any new services. This year the budget had to be augmented by approximately \$700 thousand with no new revenue. We will continue to have budget problems until the economy improves and the State is able to fund COLA or some other discretionary funding for Community Colleges.