

## 2011-12 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 30, 2011. This was only the second time in the last decade 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. Proposition 25 also expedited the process as the legislature forfeited pay and per diem for each day a budget was not adopted after June 15<sup>th</sup>.

The State's fiscal problems continue to impact the College's budget. The State needed to balance a \$25.4 billion deficit this year and Governor Brown wanted to fix the structural deficit rather than balance the budget with accounting tricks and one time solutions. Overall, the College's funding was reduced over \$4.2 million from the State this year.

The Unrestricted General Fund, which accounts for our primary operating costs, is based on our best estimate of how the State's budget will affect our revenues. In addition to the \$4.2 million reduction in State revenues, the College will also experience reductions in revenue through the loss of federal stimulus funds (\$62K), State mandated cost claims (\$322K), reduction in transcript revenues (\$140K), and reductions in nonresident tuition (\$300K). Overall, the College is faced with over \$5.1 million less revenue in 2011-12 as compared to 2010-11.

The College has still not recovered from the effects of the budget cuts that occurred in 2009-10. The hiring freeze has continued at the College and a retirement incentive was offered as part of a plan to address the budget deficit this year. Although the College was able to cut its utility and legal budget by over \$300K, over \$2 million in augmentations were required in this budget. Health and welfare (\$1.05M), step and column (\$718K), PERS (\$50K), State Unemployment Insurance (\$500K), and Student insurance (\$40K) all had to be augmented this year. The budget has also established a \$350K reserve to fund new budget requests. The Expanded Budget Committee is currently in the process of evaluating these requests for funding.

The College did end the 2010-11 fiscal year in a better financial position than last year with a \$6.1 million ending balance (7.52%). This increase was the result of the Management Group and CSEA taking pay cuts/furloughs in 2010-11 in anticipation of pay concessions in 2011-12. 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 \$200K.

The College's enrollment declined over 3,200 FTE's in 2010-11. A decline was anticipated as the College was required to implement "Block Scheduling" this year which resulted in an estimated eight percent (8%) reduction in credit enrolment. In addition, the College cut its second summer session and further reduced its Winter intersession. Construction at the Garfield Campus also impacted enrollment. Finally, the implementation of the PeopleSoft system impacted our enrollment numbers. Noncredit enrollment which is all positive attendance is understated as issues in the PeopleSoft system was not able to capture all of the hours. Even with this decline, the College was able to reach its growth targets

and earn its maximum growth revenues for 2010-11. It is expected that enrollment will further decline in 2011-12. The cut in State revenues is coupled with a reduction in workload. Overall, the College's base enrollment numbers will be reduced 5.7% in 2011-12. In anticipation of this reduction, the College reduced its 2011 Summer intersession and is planning to eliminate its 2012 Winter intersession.

There is still work needed on the College's budget. To date, the Management Group has agreed to a five percent (5%) pay reduction this year. **The Final Budget was balanced with the assumption that both CSEA and the Guild will agree to a five percent (5%) pay concession and the remaining 2009 Blue Shield rebate be applied to this year's deficit. Both the Guild and CSEA have expressed their commitment to addressing their share of the budget deficit. Negotiations are on hold and will start up again in September. Once negotiations are finalized, these line items will be corrected.**

## STATE FINANCES

Although there are signs that the State's economy is recovering, the State is still experiencing a budget crisis with an estimated \$25.4 billion deficit. This deficit is the result of one-time solutions used to balance prior year budgets which never resolved the State's budget deficit but simply pushed the problem off to the next year. Governor Brown released his 2011-12 budget proposal on January 10, 2011 and addressed the deficit with on-going solutions. The Governor recommended a balanced approach in addressing the budget deficit; specifically cutting expenses by \$12.5 billion and increasing revenue by \$12 billion through the extension of temporary tax increases implemented two years ago. With \$1.9 billion in other solutions, the Governor's proposal would include a \$1 billion reserve.

As expected, the budget proposal is heavy on cuts to virtually every sector to the budget. The one notable exception is K-12 schools, for which no cuts were proposed. The Governor stated "schools have borne the brunt of spending reductions in recent years, so this budget maintains funding at the same level as the current year." While it is true that K-12 schools have taken deep cuts, so have many other groups including community colleges. It is likely that singling out K-12 schools for preferential treatment was a political strategy for passing his tax extension proposal in June. Major reductions in the budget include:

- \$1.7 billion to Medi-Cal
- \$1.5 billion to CalWORKs
- \$750 million to Department of Development Services
- \$500 million to Universities of California
- \$500 million to California State Universities
- \$580 million to State operations and State employee compensation
- \$400 million to Community Colleges

The Governor's budget proposed the following revenues which would go before the voters in June:

- Continue current personal income and sales taxes, and the Vehicle License Fee rate for five years. These taxes are scheduled to revert back to higher levels in the 2011-12 fiscal year.
- Sales tax and the vehicle license fee revenues would be transferred directly to local governments to finance realigned responsibilities.

To get the tax extensions on the June ballot, a two thirds approval vote is required in both the Assembly and the Senate. This threshold will require the vote of two Republicans in each house.

For the California Community Colleges, the budget proposed the following:

- No mid-year cuts
- \$400 million cut in apportionment funding by delaying the census date and providing incentives for maximizing course offerings in transfer and career tech education.
- Increasing the student enrollment fee \$10/unit (\$26/unit to \$36/unit) generating an estimated \$100 million in new revenue for enrollment growth.
- An additional \$129 million inter-year funding deferral

The critical component of the Governor's budget proposal is the five year extension of taxes. If this component does not reach the ballot or is voted down, an additional \$12 billion in cuts will be required.

In March, the Legislature utilizing the authority to pass a budget with a majority vote provided through Proposition 25, approved the 2011-12 Budget Act on a partisan vote. For Community Colleges, this locked in many of the provisions that were in the Governor's January proposal:

- A \$400 million cut to the base taken as a workload reduction
- A \$10/unit increase in the enrollment fee which will mitigate the base cut
- A rejection of the census change proposal
- A new \$129 million inter-year deferral

### **May Revise:**

On May 16, 2011, Governor Brown released his May Revision, which offered adjustments to his January budget proposal. The updated budget plan is based on the Administration's latest revenue and expenditure estimates and will frame the remainder of this year's legislative budget process.

The Governor was not able to garner the two Republican votes in either the Senate or the Assembly so putting the extensions on a June ballot is no longer an option. The Governor was still proposing his balanced solution to the State deficit and was proposing to have the Legislature vote on extending the taxes with the voters approving the continuance or stopping the tax extension in a November ballot.

Overall the May Revise was fairly positive. Tax receipts are \$2.5 billion over budget through April and the Department of Finance is projecting an additional \$6.6 billion of revenue covering the 2010-11 and 2011-12 fiscal years. This new revenue allows the Governor to increase funding for Proposition 98 and modify his tax extension proposal. Proposition 98 funding is increasing by about \$3 billion with Community Colleges receiving about \$350 million. The Governor is using these increased revenues to primarily buyback the deferrals imposed on K-14 district over the last three years. The May Revise would reduce the deferrals for Community Colleges from \$961 million to \$611 million. The big change in the Governor's tax proposal is a delay on extending the personal income tax surcharge until 2012.

There were concerns that the increase in revenues made the push for tax extensions more politically difficult. As a result, the Governor focused the use of these funds on existing budgetary debt and future obligations. In the event tax extension are not approved, the additional \$350 million in Proposition 98 funding for Community Colleges could be used to mitigate the additional cuts that would be imposed on Community Colleges. However, an additional \$100 million to \$150 million in budget cuts would still be needed if the tax extensions do not pass. Potentially, some of this amount could be offset with an additional increase in fees beyond the \$36/unit level. In short, while risks remain, the increase in revenues eliminated the doomsday scenarios feared in the Spring.

### **Budget Conference Committee**

Both the Senate and Assembly formed budget subcommittees that prepared independent budget proposals. The Senate Budget subcommittee's proposed budget basically approved the May Revise with the following changes:

- Reduced Community College deferrals to \$347 million (\$350 million in May Revise) with the \$3 million being used to fund Health Fee mandated cost claims.
- Reappropriated an additional \$2 million for Career Tech Education.
- Did not address the projected fee shortage.

The Assembly Budget subcommittee's proposed budget provided many more changes through the reappropriation of \$1 billion that was originally proposed to pay off special fund borrowing: Highlights of the Assembly package included:

- Reduced Community College deferrals by \$410.7 million.
- Funding all Community College state mandated cost claims at 2010-11 levels.
- Provided \$25 million to backfill fee shortage.

To expedite the budget process the Budget Conference Committee was bypassed and the full Budget Subcommittees from both houses of the legislature met and approved a budget plan that was very similar to the Assembly Budget subcommittee proposal. It provided the following changes from the May Revise:

- Reduced Community College deferrals by \$400.2 million.
- Provided an additional \$21.9 million for enrollment fee shortage.
- Funded mandated cost claims.
- Reappropriated an additional \$2 million for Career Tech Education.

The biggest obstacle to this budget proposal was that it relied on the tax extensions being passed. Putting the tax extensions on the ballot will require a two-thirds vote of both houses. Reaching this threshold will require two Republican votes in each house to support the extensions. Republicans are asking for pension reforms, a hard State spending cap, and loosening of environmental regulations for businesses. As the surveys are showing that the tax extensions will not be approved by voters, the Democrats are unwilling to agree to these concessions. Without believing that a tax extension deal was going to come together, the Legislature passed a budget that closed the remaining gap through a

combination of increased cuts, increased revenue assumptions and some additional fees. This budget plan would have kept Community Colleges at basically the level of funding of the March agreement. The budget plan was passed by a Democratic partisan vote and presented to the Governor for approval. Highlights included the following:

- Additional \$150 million cut for both UC and CSU
- \$150 million cut to State courts
- \$200 million of additional revenue in taxing online sales
- \$300 million of additional revenue by \$12 increase in vehicle license fee
- \$50 million fire fee for rural homeowners
- \$700 million of federal funds for Medi-Cal reimbursement
- Borrowing \$1 billion from Proposition 10
- \$1.7 billion from Redevelopment Agencies
- Reinstating \$2.85 billion in Prop 98 deferrals in the May Revise
- \$1.2 billion from the sale of state properties

The Governor immediately vetoed the plan the following day indicating that some provisions of the budget were legally tenuous and that the plan did not address the state's long-term structural deficit.

### **Adopted State Budget**

The Governor and the Legislative leaders in both houses negotiated a revised budget plan that was signed by the Governor on June 30, 2011. This plan was approved by a partisan Democrat vote and featured deep program cuts, deferred payments, assumptions of higher revenues and the threat of mid-year trigger cuts. Actions that remained from the previous Legislature proposal included the following:

- Additional \$150 million cut for both UC and CSU
- \$150 million cut to State courts
- \$200 million of additional revenue in taxing online sales
- \$300 million of additional revenue by \$12 increase in vehicle license fee
- \$50 million fire fee for rural homeowners
- \$1.7 billion from Redevelopment Agencies
- Reinstating \$2.85 billion in Prop 98 deferrals in the May Revise

The budget rejected the following actions:

- \$700 million of federal funds for Medi-Cal reimbursement
- Borrowing \$1 billion from Proposition 10
- \$1.2 billion from the sale of state properties

The State budget was balanced through the assumption of an additional \$4 billion of revenue. This optimism was based in part on the fact that tax receipts for May and June were running about \$1 billion higher than estimates, giving rise to hopes of an economy improving faster than anticipated. To allay concerns that the revenues will not match assumptions, the budget includes a control section giving the Director of Finance authority to reduce appropriations as specified below upon a projection by

December 15<sup>th</sup> on revenues. Based on the projection of revenues, the following tiers were defined with automatic midyear cuts.

- **Tier 0** – No midyear cuts if at least \$3 billion of the \$4 billion of higher revenues materialize.
- **Tier 1** – If only \$2 billion to \$3 billion of the revenues materialize, up to \$601 million in midyear cuts could be enacted. These actions would include an additional \$100 million reduction to both UC and CSU and a \$30 million reduction to the Community Colleges. In addition, Community College student fees would increase to \$46/unit (additional \$10 increase).
- **Tier 2** – If less than \$2 billion of revenue materialize, over \$1.8 billion in cuts would be required to Prop. 98. This would result in an additional \$72 million reduction for Community Colleges.

Following is a chart that summarizes the 2010-11 State Budget proposals:

2011-12 State Budget Proposals  
(in \$ millions)

Category	2010-11 Budget	2011-12 Governors	2011-12 May Revise	2011-12 Conference	2011-12 Adopted
Base Apportionment	5,700.9	5,410.9	5,410.9	5,410.9	5,410.9
COLA	0.0	0.0	0.0	0.0	0.0
Property tax shortfall	0.0	33.4	75.1	75.1	75.1
Enrollment Growth	126.0	0.0	0.0	0.0	0.0
Basic Skills	20.0	20.0	20.0	20.0	20.0
DSP&S	69.2	69.2	69.2	69.2	69.2
EOP&S	73.6	73.6	73.6	73.6	73.6
Economic Development	22.9	22.9	22.9	22.9	22.9
CARE	9.3	9.3	9.3	9.3	9.3
Matriculation	49.2	49.2	49.2	49.2	49.2
Nursing	13.4	13.4	13.4	13.4	13.4
Part Time Faculty Compensation	24.9	24.9	24.9	24.9	24.9
Part Time Faculty Health	0.5	0.5	0.5	0.5	0.5
Part Time Faculty Office Hours	3.5	3.5	3.5	3.5	3.5
CalWORKS	26.7	26.7	26.7	26.7	26.7
Student Financial Aid	55.0	56.7	56.7	56.7	56.7
Telecommunications	15.3	15.3	15.3	15.3	15.3
Apportionment Deferral	832.0	961.0	610.0	560.8	961.0
Enrollment Fee shortfall	0.0	0.0	0.0	21.9	0.0

## **BUDGET DEVELOPMENT PROCESS**

The Budget Committee adopted the following principles at its February 22, 2011 meeting to guide the development of the budget:

- 1) Budget cuts will be made to minimize impact on students.
- 2) Attempts will be made to cut the budget proportionately between the major divisions: Administrative Services, Instructional Services, Student Services, Information Technology, Human Resources and the President's Office.
- 3) Attempts will be made to negotiate proportionately between Guild, CSEA and Management.
- 4) Budgets cuts will be evaluated against the Educational Master Plan.
- 5) Layoffs of permanent employees will be done only as a last resort.
- 6) College will strive to maintain its base (assuming to growth revenues are appropriated by State); unfunded enrollment will be reviewed.
- 7) Efforts will be made to minimize impact on main semesters (Fall and Spring)
- 8) The College will strive to maintain a 5% reserve balance

The 2011-12 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, \$2.1 million of Exempt Cost augmentations were made. A detailed list of the Exempt Cost augmentations is discussed later in this document.

Last year a new process was implemented that identified savings within the rollover budget. A Budget sub-committee was established that reviewed all discretionary account (permanent position and benefit accounts excluded) with a budget over \$10,000. 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 \$7,500. Through this process, the College was able to cut \$760,000 out of the Tentative Budget for reallocation.

The Strategic Master Plan Committee (Team A) has approved annual goals which will be used by the Expanded Budget Committee for funding. 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) Stratify the programs and services in terms of their missions and net revenue.
- 5) Streamline the transition from Non Credit to credit.
- 6) The College will continue its work in competing for grants and pursue additional business partnerships that will provide additional funding.
- 7) The College will allocate on-going funding so that the replacement of equipment and technology can be scheduled and planned based on industry standards.
- 8) The College will implement its two-year projection into its budget process.
- 9) Monitor, assess, and improve the server room to ensure that college data is protected and reliably accessible.
- 10) 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.
- 11) 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.
- 12) 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.
- 13) 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.

A reserve of \$350,000 has been set aside for the funding of new requests within this budget. The Expanded Budget Committee has met to review the budget requests and is currently developing a recommendation for funding.

## 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	2009-10 Actual	2010-11 Actual	2010-11 Budget
General Fund, Unrestricted	81.127	80.951	82.712
General Fund, Restricted	14.351	15.140	16.698
Student Financial Aid	23.752	29.321	30.674
Capital Projects	2.407	1.133	2.351
Self Insurance	2.654	2.634	2.854
Cafeteria	0.914	0.885	1.020
Professional Development Center	1.541	1.064	1.984
Go Bond – Series D	7.132	10.878	18.879

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 2011-12 budget is approximately \$1.6 million over what was spent in 2010-11. This increase is primarily the ending balance. The College is awaiting the awarding of a new Title V grant.
2. **Student Financial Aid:** The Student Financial Aid program has increased significantly over the last three years. The budget is \$1.3 million higher than last year primarily due to the increased number of loans that are being issued.
3. **Capital Projects:** The Capital Projects Fund budget is \$1.2 million over what was spent last year. This difference is due to the \$800K 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 \$225,000 in reserve. A \$247,000 Blue Shield rebate is expected but has not been included in the budget yet.
5. **Cafeteria:** The Cafeteria needed \$110,000 of support in 2010-11. This was slightly more than the \$70,000 required in 2010-11. With the reduction in student workers, the Cafeteria had to reduce hours which impacted its revenue in 2010-11.
6. **Professional Development Center:** The Professional Development Center's 2011-12 budget is approximately \$900K million over what was spent in 2010-11. This is a result of its ending balance.

7. **GO Bond Fund Series E:** The 2011-12 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.

## ENROLLMENT

The College's enrollment declined in 2010-11 by over 3,200 FTEs. A decline was anticipated as the College was required to implement Block Scheduling. This change resulted in an estimated eight percent (8%) reduction in credit enrollment. In addition, the College cut its second 2011 Summer intersession and further reduced its 2011 Winter intersession. The biggest decline (by percentage) was in the noncredit program by over 1,500 FTEs. Besides the reduction in the intersessions and the elimination of almost all of the Lifelong Learning classes, construction of the new Garfield Campus building impacted enrollment. However a major factor in the decline was the implementation of the PeopleSoft system. Issues during the implementation with the application, registration, and class roster modules resulted in lost enrollment. Because all of noncredit enrollment is positive attendance, instructors were not able to enter all enrollment. But since the College had already reached its growth targets without the noncredit enrollment, the manual recreation and checking of noncredit enrollment was not performed. As a result, noncredit enrollment is understated in our reporting this year. The College is still over 200 FTE's over cap. Following is a summary of enrollment for 2010-11:

Type	2009-10	2010-11	Variance
Credit	14,964	13,394	(1,570)
Noncredit	1,258	394	(864)
Career Dev./College Prep	3,040	2,376	(664)
Non-resident	<u>795</u>	<u>616</u>	<u>(179)</u>
Total	20,057	16,780	(3,277)

The cut in 2011-12 State apportionment revenue has been coupled with a proportionate reduction in base workload. Overall, an estimated 5.7% reduction in workload will be realized by the College in 2011-12. This is a little more than 1,000 FTEs from current enrollment levels. As a result of the workload reduction and to cut the budget, the College reduced its 2011 Summer intersession and is planning to eliminate the 2012 Winter intersession. As a result, enrollment is most likely to decline again in 2011-12.

## UNRESTRICTED GENERAL FUND REVENUES

The College's revenue decreased over \$5 million from last year's budget. Following are the major changes:

Revenue Source	Amount
Loss of Federal ARRA funds	(\$61K)
General Apportionment Reduction	(\$4,240K)
Mandated Cost Claims	(\$322K)
Nonresident Tuition	(\$300K)
Transcripts	<u>(\$140K)</u>
Total	(\$5,063K)

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

Unrestricted General Fund Revenues  
(in \$ millions)

Item	2009-10 Actual	2010-11 Actual	2011-12 Tentative	2011-12 Final
<b>General Revenues:</b>				
Base	72.814	72.813	70.638	70.632
COLA	0.000	0.000	0.000	0.000
Growth	0.000	1.671	0.000	0.000
Deficit	<u>(0.100)</u>	<u>(0.395)</u>	<u>0.000</u>	<u>(0.388)</u>
Total General Revenues	72.714	74.089	70.638	70.244
Prior Year Adjustment	0.200	0.082	0.000	0.000
Federal Funds	0.550	0.063	0.001	0.001
Lottery	2.153	1.965	1.950	1.950
Part Time Parity	0.349	0.349	0.349	0.349
Part Time Faculty	0.049	0.116	0.115	0.115
Other State	0.066	0.617	0.062	0.062
Other Local	0.353	0.226	0.327	0.327
Non-Resident Tuition	3.222	2.738	2.900	2.900
Other Student Fees	0.624	0.525	0.388	0.388
General Purpose Block Grant	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Total Income	80.280	80.770	76.730	76.336
Incoming Transfers	0.268	0.459	0.286	0.286
Beginning Balance	<u>6.391</u>	<u>5.812</u>	<u>6.439</u>	<u>6.090</u>
Total Available	86.939	87.041	83.455	82.712
Total Appropriations	<u>82.303</u>	<u>81.127</u>	<u>81.309</u>	<u>82.127</u>
Ending Balance	<u>6.391</u>	<u>5.812</u>	<u>4.200</u>	<u>4.200</u>

An analysis of the 2011-12 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 \$4.24 million compared to last year. This decrease is due to the State apportionment cut imposed by the State and an estimated \$25 million Statewide enrollment fee shortfall. The apportionment reduction is tied to a reduction in our base workload. Current estimates show our workload will reduce 5.7% in 2011-12.
2. **Federal Funds:** In 2010-11, the College received \$62K of federal American Recovery and Reinvestment Act funds (ARRA) which were used to backfill categorical programs. This funding was one-time and will not be received in 2011-12. As a result, a reduction of \$62K was made.

3. **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 2012 when we receive our First Principal Apportionment report.
4. **Other State Revenue:** In 2010-11, the State provided one-time funding for mandated cost claims. This budget cut all mandated cost claim revenue resulting in a reduction of \$322K.
5. **Non-Resident Tuition:** Non-Resident enrollment has dropped again since last year. The budget for non-resident tuition was reduced \$300K.
6. **Other Fees:** The Other Fees category was reduced \$140K. The College was charging for all transcripts provided to students. Title V requires the College to provide two free transcripts per year for students. This will result in a reduction to the revenue received from the sale of transcripts.
7. **Interfund Transfers:** In 2010-11, the College received a \$613K rebate from Blue Shield. Through negotiations employee groups gave back \$377K to the College to apply to the budget deficit. Although agreement has not been reached yet, the Tentative Budget assumes that the remaining \$236K remaining from the 2009 rebate will be given back to address the 2011-12 budget deficit.
8. **Beginning Balance:** The College is anticipating an increase to our fund balance. In anticipation of pay concessions for 2011-12, both the Management Group and CSEA began furlough days and pay cuts in 2010-11. These savings will result in an increased fund balance. The College ended the year with a \$6.090 million ending balance, a \$280K increase over last year.

## UNRESTRICTED GENERAL FUND APPROPRIATIONS

The College began its appropriation adjustments by establishing a five per cent (5%) General Reserve in the amount of \$4,000,000, a \$200,000 decrease resulting from our reduced budget. Then, \$2,098,000 of Exempt Costs augmentations were made. All other 2011-2 budget requests are in-process for funding. A \$350K reserve has been set aside for these requests.

**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	718,000
Health Insurance	1,000,000
Dental Insurance	50,000
Utilities	(255,000)
Legal (Federal Lobbyist)	(52,000)
State Unemployment Insurance	500,000
PERS retirement	50,000
Student Insurance	40,000
Reallocation Reserve	<u>47,000</u>
Total	2,098,000

- 1) **Step and Column Increases (\$718,000):** 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 (\$1,000,000):** Blue Shield assessed a 16% increase in premiums for 2011. Six months of this increase must be budgeted in 2011-12 (July through December). This augmentation will accommodate an estimated 10% premium increase in 2012.
- 3) **Dental Insurance (\$50,000):** The 2010-11 projected expenditure for dental claims is \$50,000 over budget. This line item must be augmented \$50,000 to cover this overdraft.
- 4) **Utilities (-\$255,000):** This College has implemented numerous energy conservation measures including the use of an energy monitoring system, use of central plants, and a college wide effort to save utilities. These measures have allowed the College to reduce its budgets in electricity by an additional \$200K. Additional reductions in gas, water, telephone, and trash disposal result in an additional \$55K budget reduction. Although there are savings within the Garfield Campus utilities, the budget has not been reduced because of the new building that will be coming online.
- 5) **Legal (-\$52,000):** The Budget Committee recommended the termination of the federal lobbyist contract. \$75K was budgeted for the federal lobbyist in 2010-11 but the ninety day notice given to the lobbyist wasn't done until the end of June which required the first quarter payment in 2011-12.
- 6) **State Unemployment Insurance (\$500,000):** The State has increased the state unemployment insurance rate from 0.72% to 1.61%. This will increase costs by \$500,000.
- 7) **PERS Benefits (\$50,000):** The PERS rate will be 10.923% in 2011-12 an increase of 0.216% over the current 10.707% rate. This augmentation will accommodate the increase.
- 8) **Student Insurance (\$40,000):** The student accident insurance premium required a augmentation of \$40,000. Our claim experience was very high last year and the current carrier would not renew. Several quotes were requested from other carriers and the lowest quote was \$40,000 more than our previous policy.
- 9) **Reallocation Reserve (\$47,000):** 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.

**2011-12 Budget Requests:** The Budget Committee has received the prioritized lists of new budget requests from each of the standing committees. The Expanded Budget Committee has met to review and evaluate the requests. Votes are currently being tallied to identify which requests will be funded. A \$350,000 reserve has been set aside to fund these requests.

**2010-11 Reserves:**

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

Reserve	Ongoing Funds	One-Time Funds	Total Funds
Mandatory Reserves:			
General Reserve (5.08%)		4,000,000	4,000,000
Contingency Reserve (0.64%)	<u>500,000</u>	<u>0</u>	<u>500,000</u>
Subtotal Mandatory (5.72%)	500,000	4,000,000	4,500,000
Academic Senate PFE grants	3,037		3,037
2011-12 Budget Requests	350,000		350,000
Employee Group Credit		229,830	229,830
Reallocations	<u>0</u>	<u>150,000</u>	<u>150,000</u>
Total Reserves	<u>853,037</u>	<u>4,379,830</u>	<u>5,232,867</u>

## TWO YEAR FORECAST

The following projection was prepared to show where the College will be in 2012-13 and 2013-14 using the following assumptions:

- 1) No mid-year cuts in 2011-12
- 2) No additional State cuts in 2012-13 or 2013-14
- 3) No Enrollment Fee/Property Tax shortfall in 2012-13 or 2013-14
- 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 2012-14 and 2013-24.
- 7) No other new state money will be received
- 8) No COLA for either 2012-13 or 2013-14
- 9) Vacant positions will not be filled.
- 10) No new major programs/needs requiring significant budgets

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

Category	2011-12 Projection	2012-13 Projection	2013-14 Projection
Base Revenues	\$70.632	\$70.632	\$72.045
Growth	0.000	1.413	1.441
Enrollment Fee/Property Tax shortfall	<u>(0.388)</u>	<u>0.000</u>	<u>0.000</u>
Total Base Revenue	\$70.244	72.045	73.486
Lottery	1.950	1.950	1.950
Part Time Faculty Programs	0.463	0.463	0.463
Other State	0.062	0.062	0.062
Nonresident Tuition	2.900	2.900	2.900
Other Student Fees	0.388	0.388	0.388
Other Local	0.328	0.328	0.328
Interfund Transfer	<u>0.286</u>	<u>0.050</u>	<u>0.050</u>
Total Revenues	76.621	78.186	79.627
Beginning Balance	<u>6.090</u>	<u>4.787</u>	<u>2.929</u>
Total Available	82.711	82.973	82.556
Base Appropriations	77.924	77.924	80.044
Step/Column	0.000	0.720	0.720
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>77.924</u>	<u>80.044</u>	<u>82.164</u>
Ending Balance	<u>4.787</u>	<u>2.929</u>	<u>0.392</u>

The two year projection shows that our fund balance will go below the five percent level in 2012-13. This situation results from the use of our reserves to balance the 2011-12 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. 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 \$9.677 million. The Budget Committee identified the following savings in addressing this deficit:

- 1. Vacant Positions (\$2,349,000):** 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. Ten full time faculty positions were approved for permanent hires or one year contracts to meet the College's full time faculty obligation.
- 2. Retirement Incentive (\$1,658,000):** 31 employees have accepted the retirement incentive. These positions have been reviewed by the Budget Committee for permanent filling and levels of backfill. An estimated \$1,628,000 savings is projected from these positions.
- 3. Budget Reallocation Sub-Committee (\$763,000):** The Budget Reallocation Sub-Committee reviewed all discretionary accounts that had a budget in excess of \$7,500 for potential budget savings. The sub-committee recommended \$789,000 in budget cuts to the Budget Committee of which \$763,000 were approved.
- 4. Summer Session Reduction (\$835,000):** The College negotiated a forty percent (40%) reduction in the pro-rata summer pay rate. In addition, the summer session was reduced approximately twenty five percent (25%). A savings of \$835,000 is projected.
- 5. Elimination of Winter Intersession (\$1,150,000):** The elimination of the Winter intersession will result in a \$1,150,000 savings.
- 6. Employee Group Credits (\$380,000):** Excess contributions from employee groups for the 2009-10 budget deficit, the savings from the three percent (3%) pay cut the Management Group provided in 2010-11 and the savings from the two furlough days CSEA provided in 2010-11 are available for balancing the 2011-12 budget deficit.
- 7. Management Groups Five Percent (5%) Pay Cut for 2011-12 (\$423,000):** The Management Group has already agreed to a five percent (5%) pay cut beginning July 2011. This pay cut will provide a \$423,000 savings.

## PENDING BUDGET ACTIONS

There are still several items that have not been resolved that will affect the 2010-11 budget. Following are those items:

- 1) **Negotiation with Employee Groups:** The College has not finalized negotiations with the Guild and CSEA for 2011-12. Both unions have decided to wait until the final budget numbers are determined and the full memberships are back on campus. This budget was developed on the assumption that a five percent (5%) pay concession will be required and accounts were adjusted accordingly. Once negotiations are complete, budgets will be corrected.
- 2) **Health Care Premiums:** Since our health care contracts are on a calendar year basis, the renewal rates for 2012 will not be received until the end of summer. This budget was developed assuming a 10% increase in premium.
- 3) **Blue Shield Rebate:** The College is expecting a \$247,613 Blue Shield rebate. The use of this rebate must be negotiated with the unions.
- 4) **2011-12 Budget Requests:** The Budget Committee is currently reviewing the 2011-12 budget requests to determine which requests must be funded. A \$350,000 reserve has been set aside to fund these requests. Based on the Budget Committee's funding recommendation, additional funds may be available to address the deficit or additional cuts will be needed.

## 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 after June 15<sup>th</sup> that a balanced budget was not approved significantly expedited the State's budget process. This year was only the second time in the last decade that the State had an approved budget by June 30<sup>th</sup>.

The Governor's pledge to address the State budget's structural deficit has resulted in drastic cuts to almost every sector of the State. Community Colleges were cut \$290 million with Glendale College suffering a \$4.2 million reduction in funding. The Governor was unsuccessful in his proposal to extend the tax increases of two years ago but fortunately, the economy is improving and tax receipts are exceeding projections. The State's budget puts the College at risk in two areas. First the budget was balanced on some optimistic projections on tax revenue which if do not materialize will result in some mid-year cuts for the College. Second, the budget wasn't able to address the projected enrollment fee shortfall resulting in more than \$350K of lost revenue.

The College was faced with some very hard decisions in balancing this year's budget. The hiring freeze has continued. In addition, a retirement incentive was offered that saved over \$1.6 million but has now brought staffing levels at bare minimums. Our summer session was further reduced and the Winter Intersession has been eliminated. All of these actions were taken at a time when the demand for classes is at an all time high.

The College's Final Budget is still approximately \$2 million out of balance. The College is in the process of negotiating with the unions but both the Guild and CSEA have stated that they are deferring negotiations until final numbers are determined and full memberships are back on campus. The

Management group has agreed to a five percent (5%) pay reduction starting in July 2011 and this budget was developed based on the assumption that the other groups would agree to the same. It is promising that all groups have expressed their intent to address their proportional share of the deficit. Work in these areas will begin again in the Fall.

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 2010-11 year with a 7.52% fund balance. Approximately \$2.1 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 2011-12. 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 \$2.0 million 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.