Southwestern Community College District Office of Business and Financial Affairs May 23, 2012

2012-13 Tentative Budget Assumptions

- ✓ Step and column increase of \$771,000 including benefits for unrestricted fund
- √ Five percent pay reduction for all employees for 2012-13 fiscal year only
- ✓ SERP payment of \$598,000
- ✓ Additional employee health insurances above the bargained amount \$5,200 + \$800,000 for 2012-13 No increase for health insurance budgeted for 2012-13
- √ \$1 million retiree benefits reimbursement from OPEB trust
- ✓ Workload reduction of \$5.5 million equal to 1212 FTES for 2011-12 year
- ✓ FTES target for 2012-13 is 13,743 FTES based on possible workload reduction of 5.6% for 2012-13 due to possible failure of tax initiative
- √ First attempt to develop PTOL budget by connecting FTES target, number of sections offered and available funds within General Fund
- ✓ Budget includes following vacancies: ____ faculty positions totaling ____ including benefits ____ classified positions totaling ____ including benefits ____ management positions totaling ____ including benefits
- ✓ Budget includes: \$_____ for cafeteria operation \$_____ for Child Development Center
- ✓ Recommend to reduce reserve for contingency from 7% to 5%
- ✓ If tax initiative fails, District is to lose \$4.2 million ongoing dollars and workload measures will be reduced by 800+ FTES
- ✓ District has \$____ unallocated dollars from ending balance towards possible mid-year budget cut

Downside Risk!

- Scenario A Receive \$313 million deferral buy-down and maybe a local revenue shortfall of up to \$341 million RDA/property taxes equates to 7.3% deficit factor which may translate into 71.4K less FTES
- Scenario B WORST, WORST CASE

NO \$313 million deferral buy-down

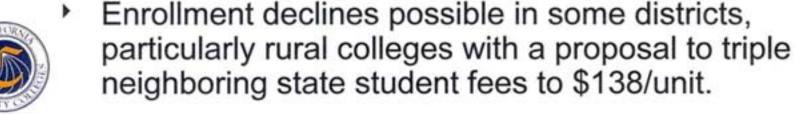
Programmatic Reductions \$286.5 million equates to 6.2% workload reduction and 63.8K less FTES



RDA/Property tax local revenue shortfall equates to 7.3% deficit factor which may translate into 71.4K less FTES

Budget Risks

- Tax measure is politically uncertain and costly.
- Revenues are highly variable, with or without tax measure.
- Planning will be difficult. Workload reduction of 6% will be decided in November and local revenue shortfalls of up to 7%
- Redevelopment funds may not materialize in either the current (\$116.1m) or budget years (\$341.2m)
- Student fee shortfall with more BOG waivers as fees go to \$46/unit.





Southwestern Community College District Office of Business and Financial Affairs May 23, 2012 <u>District's Challenges</u>

2013-14 Budget

- ✓ Possible mid-year budget cut of \$4.2 million may impact 2012-13 ending balance and permanent reduction of income for 2013-14
- √ 2012-13 budget solution is for one year only. District was facing \$5.6 million budget cuts. On-going budget reduction \$1.5 million (\$1.0 PTOL & \$0.5 million for supplies). This leaves \$4.1 million cuts to be addressed in 2013-14
- ✓ Possible step & column increase of \$700,000+ in 2013-14 based on 2012-13
- ✓ Possible increase in PERS and/or STRS rate for 2013-14
- ✓ Possible increase in health benefits cost for 2012-13 and 2013-14
- ✓ Possible changes in funding formula due to less resources at state level
- ✓ Continuous monitoring of FON (Faculty Obligation Number) for 2013-14
- ✓ Continuous monitoring of 50% law for 2013-14 due to sudden decrease of revenue.

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Current year district projections

Southwestern

The budget freefall: Four rounds of 2011-12 budget cuts

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Southwestern CCD

Summary of estimated 2011-12 cuts for Southwestern CCD

| Enacted Budget Cut: | \$-4,447,000 |
|-----------------------------------|--------------|
| January "Triggered" Budget Cut: | \$-1,023,000 |
| \$30 Million Impact of Fee Delay: | -\$-410,000 |
| Student Fee Revenue Shortfall: | -\$1,369,000 |
| Redevelopment revenue delay/risk: | -\$1,589,000 |

Total 2011-12 Est. Budget Cut: \$-8,838,000

The Budget Act

In the 2011-12 state budget, the state General Fund appropriation for community colleges was cut by \$400 million, which was expected to be partially offset by \$110 million in new fee revenue from a state-mandated increase in fees from \$26 to \$36 per unit.

In an effort to maintain the per-student funding received by the state, the Budget Act provided the Chancellor's Office with authority to reduce student workload commensurate with the funding cut taken by the community colleges. Districts reduced enrollment, as instructed, in all areas except enrollments in basic skills, workforce training and transfer-level coursework. Underlying the provision permitting colleges to reduce enrollments was an acknowledgment that colleges have NOT received a cost of living adjustment in four years while at the same time their fixed costs have increased (negotiated agreements, health & welfare benefits, utilities etc) significantly. While a workload reduction permits institutions to somewhat "preserve" instructional quality, the lack of investment in higher education results in "shutting the door" on students.

2011-12 Cuts Page 2

For Southwestern CCD, this reduced funding by approximately \$4,447,000, resulting in a workload reduction of 986 FTES, or approximately 329 course sections.

The January Trigger Cuts

In an effort to conclude the 2011-12 budget deliberations in June 2011, an additional \$4 billion of revenues was added to Governor Brown's May Revision projections to "preserve" overall programmatic funding statewide. Companion legislation to the budget act outlined additional programmatic reductions throughout the budget in the event revenues came in under projections. On December 13th the Department of Finance announced an additional \$981 million of "trigger" reductions of which \$102 million were specifically targeted at the community colleges. This \$102 million reduction to the colleges arrived 6 months into the fiscal year and came at the conclusion of the fall 2011 semester, and after spring 2012 schedules had been set. Given the dynamics unfolding related to the upcoming November election, it is likely the colleges will again find themselves on a "trigger" list which once again will compromise their ability to serve their communities.

For Southwestern CCD, this reduced funding by an additional amount of approximately \$1,023,000, resulting in an additional workload reduction of 239 FTES, or approximately 80 course sections. Additionally, the district was cut \$410,000 on a one-time basis.

The February Surprise

On February 16, California's community college districts were informed that they would have an additional \$149 million mid-year cut, on top of the \$313 million cut included in the 2011-12 enacted budget and the \$102 million made in January as part of the "budget triggers." This brings the total 2011-12 cuts to an astounding \$564 million.

The cut is due to lower-than-projected property tax and student enrollment fee revenues, which are ordinarily combined with state general fund revenues to provide each district's "apportionment"--the basic per-student funding that supports instruction and student services.

Because the San Mateo CCD became a "basic aid" district in April 2012, \$50 million was "freed up" and reduced the current year deficit to \$100 million.

For Southwestern CCD, this reduced funding by an additional amount of approximately \$1,377,000.

Redevelopment Delay/Risk

As part of the 2012-13 budget, the governor has proposed reducing General Fund for California's community colleges by \$116 million to offset an expected redirection of local property taxes from redevelopment agencies to community college districts. The Legislative Analyst's Office has stated concerns that the redevelopment revenue is overstated and districts should prepare for an additional "cut" in the event the Legislature accepts the governor's proposal and the redevelopment revenue doesn't materialize. The State Controller's office has administratively held \$116 million from May cash payments to community colleges.

For Southwestern CCD, this could reduce funding by an additional amount of approximately \$1,599,000.

Summary

Of the \$564 million in total cuts, \$385 million is taken as a permanent "workload reduction," meaning fewer classes will be offered and fewer students will be served. The remaining \$149 million is a one-time reduction to funding per student, reducing funding from \$5,659 in 2008-09 to nearly \$5,000 in 2011-12.



Budget Resolution

· District-Adopted Budget Resolutions

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Budget Simulation: Southwestern CCD

printable version

2012-13 May Revise Budget Underlying Assumptions

The reduction simulations assume a dollar reduction in each of credit, noncredit and CDCP FTES in a proportional manner across the district's offerings. Because noncredit and CDCP are funded at a lower rate, the percentage of FTES reduced is greater. Similar to 2011-12, each district would likely be able to decide the exact blend of its reductions. The base FTES assumptions are assuming proportional reductions of the 2011-12 workload reduction, as identified in the Chancellor's Office Budget Workshop information. All non-excess local property tax districts are included, as the 2011-12 small district exemption was a one-time policy decision.

| 2012-13 Base revenue (before reductions) | \$71,675,495 |
|--|-----------------|
| Number and percent credit FTES | 14,381 (98.81%) |
| Number and percent noncredit FTES | 135 (0.93%) |
| Number and percent CDCP FTES | 38 (0.26%) |

Quick Comparison

| | Scenario A: Governor's Budget and Tax Package | Scenario B: Governor's Budget, with Failure of Tax Package |
|-----------------------------|--|---|
| Net Apportionment Cut: | \$0 | \$-4,071,056 |
| Workload reduction percent: | 0% | -6.156% |
| TOTAL FTES Reduced | 0 | -895.00 |
| Redevelopment risk | \$-4,845,000 | \$-4,845,000 |

Scenario B Details

| Reduced credit FTES | -885.00 |
|-----------------------------|---------|
| Reduced noncredit FTES | -8.00 |
| Reduced noncredit CDCP FTES | -2.00 |

Redevelopment Revenue Risk

Deficit Risk \$-4,845,000 (0.0732 Deficit)