FOOTHILL-DE ANZA
Community College District

April 27, 2010

To: Linda M. Thor

From: Andy Dunn
Bernata Slater
Mike Brandy

Subject: **Update on 2010-11 Budget**

The Board of Trustees has been discussing the 2010-11 budget for a period of months. Anticipating that significant reductions would have to be made for 2010-11 because of state cuts to general fund apportionment revenues, rising costs, and deep cuts to the categorical programs, the district strategy to balance the budget was formulated last fall and is currently being implemented. An in depth review of the causes of the budget deficit, as well as recommended solutions to balance the budget, was presented to the Board on April 5, 2010.

Meantime, the detailed preparation of the 2010-11 budget has continued. We are at a point now where we will be freezing a set of assumptions for revenue and expenses and preparing the 2010-11 Tentative Budget. There is a need to remind all parties that the underlying assumptions for budget development will continue to change until the Governor actually signs the state budget into law for 2010-11 sometime in July or even later.

The purpose of this budget review is to outline changes in major assumptions on revenue and expenses and show at a very broad level how those changes will impact the strategy to a balanced the budget for 2010-11.

REVENUE ASSUMPTIONS

Apportionment: Last summer we anticipated that the state would reduce our operating budget by about 4% and we made the corresponding reduction in apportionment revenue. When the actual calibration of the reduction to state revenue was known, it became 3.39%, slightly less than we originally budgeted. Consequently, our revenue estimates were increased by about $500,000. Since we were already serving more students than we were being paid for, we did not have to increase expenses to secure that additional apportionment revenue.

A second positive factor in the apportionment area was the result of our final recalculation of FTES for the 2008-09 fiscal year. Under the provisions of SB 361, a district receives a “base allocation” for the college and then receives a per unit rate for all FTES. The base allocation is calibrated to increase in certain broad bands of FTES. If the FTES of a college is between 10,000 and 20,000, the base allocation is $3.9 million. However, when the college exceeds 20,000 FTES, the base allocation is increased to $4.4 million, resulting in an increase in the overall apportionment of $500,000. When De Anza re-certified their FTES for 2008-09 in November, they just barely crested over the 20,000 margin at 20,087, thus qualifying for the additional apportionment. Generally, there would be no question that this is ongoing money, but the wrinkle this year is that because of the workload reduction, De Anza will fall below the 20,000 FTES level in 2009-10. We are working with the state to recommend a hold harmless provision for this event, but in the meantime we will consider this additional base allocation to be ongoing apportionment dollars available to us in 2010-11.

Non-resident Tuition: Early in this year we saw a slight softening of non-resident enrollment and reduced the revenue estimates for 2010-11 down by $350,000. It appears that the winter quarter enrollments have recovered slightly and we have now re-instated the $350,000 into our revenue estimates, in effect projecting the same revenue for 2010-11 as for 2009-10.

On the downside of the revenue assumptions, we lost about $250,000 in additional revenue due to the categorical cuts in the part time faculty compensation program.

When this assumption is combined with all the other revenue changes, there is still a net gain to revenue for 2010-11 of approximately $1 million. That is welcome news!

EXPENSE

Full Time Positions: This has been a complex year for rolling forward our full time faculty, classified and management positions. As reviewed with the Board at the April meeting, there were many changes made to contract positions to cope with the $10.6 million deficit. These changes included elimination of vacant positions, moving some positions to other funds and funding sources, and contract reductions to some filled positions. We believe that all of these changes are now reflected in the detailed position budget and that we have properly accounted for all the movement. (It has been particularly challenging to account for all these changes while at the same time going live on the HR Banner position control in July 2010). All of the changes and elimination of positions categorized as “escrow I”, “phase I” and “escrow II” have been eliminated from the operating budget for 2010-11 in these sets of assumptions. Funds will be set aside from one time money for the escrow II positions to carry those through the 2010-11 year while solutions are found to incorporate those back into the operating budget as we believe we cannot run the district without those positions. There are a few more positions that we will carry through June 2011 until we find out what the final state budget will be. This strategy was developed in December 2009 and has not changed.

Step increases, part time faculty equity salary increases, professional development leaves, and staff development leaves, have all been funded and incorporated into the 2010-11 expense assumptions. There have been no changes in those assumptions.

Medical Benefits: The budget has been loaded to reflect the MOUs with all the unions reflecting the district’s and active and retiree employee contributions for the 2010-11 year. It should be emphasized that while the district's and employee contributions are fixed for 2010-11, the actual costs will vary. Ideally, the actual costs will come in right at the contribution levels, but in the event the actual costs are higher than the contribution levels, funds will be drawn from the medical rate stabilization fund to offset these increases on a one-time basis. We are projecting at this moment (second quarter end estimates) approximately $5 million in our medical stability fund to offset any future medical costs increases.

Utilities: The revised assumption for utility cost has led to a decrease in that line item by about $700,000. This is the result of a complex combination of factors including slight decreases in the per unit rates for gas and electric and the anticipated impact of the large solar grid at Foothill being completed this summer. This is welcome news on the utility front.

Special Ed Match: Because of the reduction in the categorical Special Ed Program, the district match for that program has been reduced by about $300,000 from our previous assumption.

Expense Summary: Because of the changes in assumptions to utilities and the Special Ed match, the overall expense budget is reduced by about $1 million from earlier assumptions.

SUMMARY

When the increased revenue assumptions and the decreased expense reductions are combined, the net effect is a change of about $2 million to the "good", resulting in a budget that is balanced with $2 million more in revenue than expenses.

This is a good position for the district to be in at this stage of budget development. If all of the major assumptions on revenue were to hold firm, it would mean that a large portion of the 'Escrow II " positions could be reinstated into the operating budget when the state budget is signed. The largest threat to the operating budget's remaining balanced is clearly the threat of another round of state revenue reductions. There are no indications from Sacramento as to what might happen to community colleges in 2010-11.

We do not expect to receive additional budget news until mid-May when the Governor and Department of Finance release the May revise.

The summary of the Tentative Budget will be submitted for Board review at the first meeting in June, with an anticipated approval of the detailed Tentative Budget at the second meeting in June.

Summary of Projections

	2009/10 Adopted Budget	2010/11 (December 2009 projections)	2010/11 Tentative Budget (May 2010)
General Fund			
Revenue	180,666,360	180,320,000	181,307,200
Expenses	188,065,922	184,480,001	179,156,836
Net (Deficit)	**(7,399,562)**	**(4,160,000)**	**2,150,364**
Reductions	3,593,721	4,160,000	
Net Gain/(Deficit) after reductions	**(3,805,841)** one-time fund balance from FY 08/09 used to close deficit	**-**	**2,150,364**
Note: some of the cuts implemented as Phase I cuts, position eliminations, B budget reductions and other. Also, escrow II established to carry various positions for a period of 1 year.			
Categorical Programs			
Categorical Programs state cuts	6,500,000	6,500,000	6,500,000
FHDA Reductions to categorical programs/fund redirects, program reductions, etc.	various solutions implemented to offset cuts on one-time basis	(6,500,000)	(6,500,000)
Net Deficit after reductions		-	**-**
Note: some of the cuts implemented as Phase I cuts, position eliminations, B budget reductions and other. Also, escrow II established to carry various positions for a period of 1 year.			
Additional cuts to state revenue		**????**	**????**
Available resources to offset future state cuts: General Fund--Fund 114 (estimates as of 2nd qtr end)		**6,441,405**	**6,441,405**

Changes in Assumptions from preliminary (December) to Tentative budget:

Revenue:	
Apportionment:	
Base Adjustment for exceeding 20K FTES @ DA	500,000
Workload reduction adjustment from 4% to 3.39%	500,000
None-res tuition -no decrease	350,000
PT faculty compensation adjustment/(cuts)	(259,371)
Subtotal	1,090,629
Other	(103,429)
Total Revenue adjustments	987,200
Expenses:	
Utilities	713,561
SPED transfer	299,991
Subtotal	2,000,752
Other	149,612
Total	**2,150,364**