

**MERCED COLLEGE  
Office of the President**

**BOARD AGENDA BACKUP**

**PRESENTED TO THE BOARD OF TRUSTEES OF THE  
MERCED COMMUNITY COLLEGE DISTRICT  
AT THE September 6, 2011, MEETING OF THE BOARD**

**Item:** The Proposed 2011-12 Final Budget

**Presented By:** Mazie L. Brewington

**For:**                    **Information** \_\_\_\_\_                    **Action**                      **X**  

**Background Information**

As prescribed by California Code of Regulations Section 58305 (c) "On or before the fifteenth day of September in each year, each District shall adopt a proposed Final budget". The action the Board will be asked to take tonight will fulfill the District's requirement.

The 2011/12 Final Budget that is being presented to you tonight is the third review of the District's General Fund. The information will be presented for the Unrestricted and Restricted General Fund. The Unrestricted General Fund; oftentimes, referred to as the operating budget, is based on the information presented in the Governor's January Budget, the May Revise and the Chancellor's Office 2010/11 Second Period Principal Apportionment referred to as the P2. The Restricted General Fund is composed of the Board Designated, College Work Study, Categorical Projects #1, Categorical Projects #2, Bond Redemption SFID #1, Bond Redemption SFID #2, Child Development, Merced Farm, Capital Projects, Bond Construction SFID #1, Bond Construction SFID #2, Bookstore, Retiree Health Benefits, Associated Students of Merced College (ASMC), and Student Financial Aid Funds.

The 2011-12 State budget was signed by Governor Jerry Brown on June 30, 2011. This budget was approved by a majority vote of fellow Democrats in the legislature to close a roughly \$10 billion deficit and put a spending plan in place before the start of the state's new fiscal year on July 1, 2011. The budget featured deep program cuts, deferred payments, assumptions of higher revenues, and the threat of mid-year trigger cuts. The final budget assumes General Fund expenditures of \$85.9 billion, a decrease of \$5.5 billion from the 2010-11 fiscal year. Even with all of these actions, the Department of Finance preliminarily anticipates a 2012-13 deficit of \$3.1 billion, though there are many moving pieces to account for in this estimate.

More specifically, the 2011-12 enacted state budget impact to California Community Colleges and Merced Community College District is as follows:

### **California Community Colleges/Merced CCD Impact:**

- Scenario A- \$400M reduction to Base Apportionment.
- Student Fee income of \$110M used to offset Apportionment Reduction; **Impact to System**-\$290M plus \$23M Base Funding over the 2009-10 and 2010-11 fiscal years with no state support = \$313M net reduction to Base Apportionment. The impact to Merced College:
  - Under scenario A, **\$2,711,104**.
  - Under scenario B, **\$3,627,595**. Also, this figure includes Tiers 1 (-\$259,850) and 2 (-\$623,641), which totals an additional apportionment reduction of \$883,491.
- Student Fee increase to \$36 per credit unit.
- Increase “cash” deferral by \$129M for a total of \$961M. The additional amount will be deferred from spring 2012 until October 2012. The total impact of the deferrals to Merced College is **\$11,086,237**.
- No funding was provided for either growth or COLA.
- No restoration of the categorical program reductions that were enacted in the 2009-10 Budget Act.
- An additional reduction in apportionment of 0.4 percent (deficit factor) for a possible statewide student fee shortfall of \$25million. The impact to Merced College is \$91,208.
- Workload reductions for 2011-12 are identical to the 2009-10 language and the impact to Merced College is a reduction of 619.02 FTES, of which, Credit is 545.46, Non-Credit-33.99 and CDCP-39.57. If new revenues do not materialize at the levels assumed in the budget it will trigger mid-year budget reductions based on tiers. This final budget assumes tier 2, which would be an additional base workload reduction of 59.33 FTES at Tier 1 and 142.39 FTES at Tier 2, bringing the total base workload reduction to 820.74 FTES.

### **Budget Risks:**

- **Midyear Triggers** – The largest risks is the threat of midyear trigger actions if revenues do not materialize at the levels assumed in the budget. The Chancellor’s Office is especially concerned about the possibility of a fee increase that would occur just prior to the spring term. They are working with the legislature on alternatives to this potential trigger action. The specific mechanics of this action are explained below.

### **Trigger Mechanisms:**

- Allows the Legislative Analyst Office (LAO) to forecast new revenues and report on by November 1, 2011 as part of their economic forecast; Department of Finance (DOF) would need to evaluate if new revenues come in sufficiently by December

15, 2011. This would trigger actions that would determine which Tier (0-2) would be implemented in January 2012.

- The higher of LAO or DOF revenue estimates will be used.

### **Tier Strategies:**

- Tier 0: (at least \$3 of the \$4 billion materializes); no cuts
  - Tier 1: (between \$2 and 3 billion of revenue materializes): \$30 million apportionment cut, backfilled by an increase in fees of \$10, to \$46/unit.
  - Tier 2: (between \$0 and \$2 billion of new revenue materializes); Tier 1 cut and fee increase PLUS \$72 million additional apportionment cut (workload reduction assumed).
- **Fee Shortage** – Based on preliminary figures for the 2010-11 fiscal year, there has been an increase on the percentage of waivers granted to students. The Department of Finance has not adequately taken this growth into account when providing their estimates. A conservative estimate of the shortage is approximately \$25 million.
- **Recovery** – The budget assumed \$11.8 billion in revenues in excess of what was estimated in January. A large chunk is based on tax receipts; however it is difficult to square these figures with other troubling economic indicators, such as slow job growth.

### **Proposition 98**

- Proposition 98 was intended to establish a constitutional minimum funding guarantee for K-14 Education, based on changes in workload and inflation (either for the change in per-capita General Fund revenues or per-capita personal income).
- In enacting the 2011-12 State Budget, the legislature for the first time funded K-14 education below the minimum guarantee without voting to suspend proposition 98. This action sets a terrible precedent for the future of proposition 98 as a meaningful measure of the State's commitment to public education.
- The manipulation of proposition 98 is a loss to the K-14 system of approximately \$3.2 billion dollars.

### **2012-13 CCC System Budget Requests:**

- The Board of Governors is required to adopt a System Budget request annually. The Chancellor's Office convenes a budget workgroup, comprised of members and designees of the Consultation Council, other college representatives, and system office staff to work on principles and a blueprint of a budget request to present to the Governor in early September.

- The budget workgroup met in June and there are three primary requests:
  - \$313 million for categorical program restoration, including the Student Senate
  - \$793 million for past COLAs and a 2.38% COLA for 2012-13
  - \$377 million for growth/restoration
  - **\$1.483 billion total** if all needs are requested in the 2012-13 fiscal year

### **The May Revise**

On Monday May 16, 2011, the Governor released his annual May Revision. Relative to the budget proposal issued in January, the news is largely positive. The Department of Finance has identified an increase in revenue of \$6.6 billion covering the 2010/11 and 2011/12 years. Combined with the significant legislative actions taken in March, the scope of the budget gap identified by the Governor has been reduced from \$26.6 billion to \$10.8 billion.

The May Revision proposes to keep most of the actions taken on the California Community Colleges budget earlier in the year intact. More specifically, the changes to community college budgets are:

- \$350 million “buy-down” of the \$961 million interyear deferral to \$611 million (no programmatic effect).
- Adjustments for changes in local property tax collections.
- Suspension of the Health Fees, Sexual Assault Response Procedures, Reporting Improper Governmental Activities, Student Records, and Prevailing Wage Rate mandates, with the intent to eliminate them or make them optional.
- Offset mandate costs for the Enrollment Fee Collections and Waivers and the Tuition Fee Waivers mandates by existing local assistance funding.
- No proposal for census reform or for any other significant policy change.

Based on the information contained in the May Revision, the LAO has adjusted the cut scenarios to A and B/C combination being the worst case. The impact to Merced College is addressed in Scenarios A and B/C as follows:

- Scenario A assumes tax extensions and no suspension of Proposition 98 (-\$2,540,000) and,
- Scenario B/C assumes an all cuts budget, including a suspension of Proposition 98 for K14 (-\$4,292,000).

The additional revenue that makes the inter-year deferral and property tax options above open is still contingent on a two-thirds vote of both houses to extend temporary taxes. If that fails, we're essentially back to the January budget amounts, assuming no suspension of Proposition 98. In an all-cuts budget, we would expect that the first cuts to the community college budgets would be to eliminate the \$350 million in deferral restoration. The May Revision represents the Governor's plan, but the Legislature will

also have their say with hearings beginning the week of May 23<sup>rd</sup>. The District will continue to monitor events at the state level and make necessary adjustments in the Final budgets.

### **Proposed 2010/11 State Budget-Governor's Release January 10, 2011**

The proposed State budget for 2011-12 is projecting a shortfall of \$25.4 billion over the 2010-11 and 2011-12 fiscal years. Of this deficit, \$8.2 billion is attributable to 2010-11 and \$17.2 to 2011-12. In addition, the Governor indicates that the shortfall could grow by another \$1.2 billion if a controversial sale of state-owned real estate is abandoned. To address the shortfall, Governor Brown's budget proposes \$12.5 billion in spending reductions, \$12 billion in revenue extensions and modifications, \$1.9 billion in other solutions to close the gap and provide for a \$1 billion reserve.

Major proposed reductions include:

- ❖ \$1.7 billion to Medi-Cal
- ❖ \$1.5 billion to California's welfare-to-work program (CalWORKs)
- ❖ \$750 million to the Department of Developmental Services
- ❖ \$500 million to the University of California
- ❖ \$500 million to California State University
- ❖ \$308 million for a 10 percent reduction in take-home pay for state employees not currently covered under collective bargaining agreements.
- ❖ \$200 million through a variety of actions, including reorganizations, consolidations and other efficiencies.

The budget proposes 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.
- ❖ Sales tax and the vehicle license fee revenues would be transferred directly to local governments to finance realigned responsibilities.

It is important to note that these projections are the Governor's proposals and he has presented what he calls a "tough budget for tough times". As expected, the budget proposal is heavy on cuts to virtually every sector of the budget except K-12 schools, for which no cuts are proposed. The major components of the proposed State budget for community colleges are as follows:

- ✓ No mid-year cuts
- ✓ 400 million cut for "Apportionment Reductions and Reforms. A \$400 million cut would represent a funding reduction of roughly 7 percent.
- ✓ Student fee increase of \$10 per credit unit. This increase, which would bring the credit rate to \$36 per unit, would generate \$110 million in new revenue that would be used to support additional enrollments.

- ✓ 1.9 percent enrollment growth funded by \$110 million in revenues generated by the increase in student fees. This translates to 22,700 full-time equivalent students or roughly 50,000 headcount students.
- ✓ Additional \$129 million inter-year funding deferral. This change would bring community college inter-year funding deferrals to a total of \$961 million. The deferral would be taken from payments in January through May and paid to Districts in October of the following year. If adopted, this additional deferral would likely be a permanent addition to community college deferrals.
- ✓ No further cuts to student support categorical programs.
- ✓ Categorical flexibility provisions adopted as part of the 2009-10 State Budget would be extended for two additional years, through 2014-15.
- ✓ Modest downward adjustments in estimated local property taxes (\$33.4 million) and student fee revenues (\$18.7 million) for 2011-12. Proposed State General Fund allocations are adjusted upward to offset these revised estimates.
- ✓ Maintain full funding for the Cal Grant program.

Based on the information provided in the proposed state budget, the May Revise and the Second Period Apportionment Report, the Administration has developed a Final Budget for 2011-12. This information is final and will be amended as needed once the Legislature and the Governor work through any possible mid-year reductions triggered by anticipated new revenue receipts of less than \$3 billion dollars. This final budget adopts the worst case scenario for mid-year reductions at Tier 2.

### **State Budget - Impact on Merced College**

Highlights and the assumptions used to develop the Final Budget are as follows:

#### **Revenue:**

- The final budget assumes an apportionment reduction of approximately \$3,627,595, which is tied to Scenario B and includes a potential mid-year reduction at Tier 2.
- Tiers 1 (-\$259,850) and 2 (-\$623,641) total \$883,491, and this figure is included in the current apportionment reduction. In addition, the final budget includes a reduction in apportionment of 0.4 percent (deficit factor) for a possible statewide student fee shortfall of \$25million. The impact to Merced College is \$91,208.
- FTES budgeted in 2011/12 is based on the Second Period Apportionment Report (P2) and an additional downward adjustment has been factored in to account for the workload reduction tied to the Apportionment reduction of \$3,627,595.

- The District's base workload for 2010/11 was 9,831.870 FTES and due to the apportionment reduction of approximately 6.2%, the new base workload has been adjusted to 9,344 FTES. This final budget assumes a funding level at Tier 2, which would be an additional base workload reduction of 59.33 FTES at Tier 1 and 142.39 FTES at Tier 2.
- Growth revenue has been included in the Final Budget as an offset to the apportionment reduction. The Governor's budget includes \$110 million for a 1.9 percent growth allocation which could equate to \$958,000 for Merced College.
- No Cost of Living Adjustment (COLA) has been budgeted.
- The Part-time Faculty Compensation is budgeted based on unspent dollars received in 2010/11, plus additional funds received in 2011/12. As ratified by MCFA, this allocation will fund the new Part-time/Overload salary schedule. A subcommittee of the District and MCFA has been formed to explore future parity goals, simplify the salary schedule and determine annual distribution of these funds.
- Nonresident tuition will decrease by \$123,000 as foreign student enrollment is expected to drop and rates remain level at \$208 per unit. It is anticipated that the number of out-of-state athletes will remain level as the athletic program remains unchanged.
- As of the 3<sup>rd</sup> quarter and start of the 4<sup>th</sup> quarter, the District has received new income that is recognized as part of the Unrestricted General Fund Budget. Income includes:
  - 2009-10 Recalculation of Apportionment/Redevelopment Agency Funds(RDA) - \$152,219
  - Medicare Subsidy - \$137,213
  - Mandated Costs - \$186,121
  - 2009-10 Premiums Reimbursement Funds - \$59,313

These funds are not recognized as part of the original budget as the receipts of the reimbursed or allocated amounts are not known and uncertain until late in the fiscal year. The 3<sup>rd</sup> quarter 311Q reflects income listed in bullets 1-3 and bullet number 4 will be a part of the 4<sup>th</sup> quarter 311Q report.

### **Expenditures:**

- The full-time faculty obligation remains frozen at 174.6 FTEF. Therefore, eleven vacant faculty positions will be filled in 2011-12 in Art, English (Merced and Los Banos), Vocational Nursing, Nursing, Psychology/Sociology (Los Banos), Counselor, Digital Arts/Graphic Design, Mathematics (Los Banos), Criminal Justice and a Librarian (Los Banos) to maintain the District's AB1725

requirement at a projected net savings of \$112,907. The eleven positions include nine replacement positions for current year retirees, one replacement position for a prior year retiree and one new position working toward the anticipated unfrozen FON.

- Management positions that remain vacant or were recently filled include the VP TIR, HR Supervisor, Operations Director, and Business & Community Development Director. These vacancies are expected to generate an overall salary savings of \$175,906. However, the savings will be reduced by \$46,079 due to management vacation payouts plus the temporary reclassification of the HR Analyst. Therefore, the net salary savings to the District is projected to be \$129,827.
- Classified positions not filled in 2010/11 will remain unfilled in 2011/12; therefore, are not included in the budget.
- Health benefits for SISC medical rates will increase by 5.19%, for an additional cost of \$202,470; vision and dental rates will remain the same as 2010/11.
- The PERS rate will increase by 2.02%, from 10.707% to 10.923%, for an additional cost of \$20,379.
- The employee income protection rate will increase by 17.6%, from 0.51% to 0.60%, for an additional cost of \$21,798.
- The District's contribution rate for State Unemployment Insurance has increased from .72% to 1.61%, an additional cost of \$266,164. The District will incur an additional 15% Local Experience Charge (LEC) against benefits paid to former employees. The LEC is calculated annually and is determined based on the District's reserve ratio. The 15% LEC rate is estimated to result in an additional cost of \$40,000 for 2011/12.
- Workers Comp rates are projected to remain at the 2010/11 level of \$1.472/\$100.
- Salaries have been adjusted for step and column increases including 2011/12 classified longevity bonuses.

Faculty	\$228,366
Adjunct Faculty	24,716
Classified	276,762
Management Team	<u>229,566</u>
Total	\$759,410

- All retirees, including employees who have filed intent to retire, have been budgeted in the Retiree Health Benefits.

- Rates for liability, property, employment practices and auto physical damage insurance will remain the same for 2010/11.
- Rates for student insurance are projected to remain the same as 2010/11. It is anticipated that submitted student claims ratio between regular students and athletes will remain the same.
- District will continue funding the EOPS program's match at the 2008/09 Required District Contribution calculation amount of \$231,166; although, the Required District Contribution calculation remains at \$165,194 based on the Governor's 2011/12 Budget.
- District will continue to provide \$46,790 of Matriculation's support of the EOPS program.
- District will continue to provide \$65,000 of advertising budget to credit Matriculation program.
- There has been no adjustment to utilities included in this budget. Other than the City of Los Banos, our utility companies are not anticipating rate increases at this time. The City of Los Banos is currently conducting a rate study but have no timetable for completion.
- Maintenance agreements are projected to increase by \$103,381.
- The Planned Expenditure Committee has completed their work and the District will be providing backfill for the reductions in carry-over and ARRA dollars for a total of \$360,781. The backfill has been included in the 2011/12 final budget. The programs being supported are as follows:

EOPS/CARE	\$ 201,368
DSPS	84,601
Matriculation	14,535
Cal Works	<u>60,277</u>
Total	\$ 360,781

- Expenditure budgets included in the adopted 2010/11 Final Budget were rolled-over, just for planning purposes, to the 2011/12 budget as a starting point for budget development. The campus community participated in three phases of budget development starting with preliminary, then tentative, and final. The final budget has been adjusted for those expenditures that will occur in 2011/12.

- The master planning committees have completed their work for the 2011/12 Master Planning Resources Allocation Process (RAP), previously referred to as “One-time expenditures. The list of items totaling \$1,015,778 went through each master planning committee for review and comment and was forwarded to EMPC for final consideration. Due to the current state of the budget, a refined planning process was followed and items were placed into three categories starting with critical, then necessary and, postpone in order to determine funding levels for the 2011/12 fiscal year. Final costs by category are as follows:

Critical ( <i>includes planned expenditures</i> )	\$ 381,660
Necessary	224,177
Postpone ( <i>not funded</i> )	<u>409,941</u>
	\$ 1,015,778

- The funding level for the Resource Allocation Process for the 2011/12 Final Budget is based on the critical, planned expenditures and necessary estimates. The “Postpone” category will be funded as savings are realized from the other categories.

**Reserves:**

- The ending balance for 2010/11 is \$10,884,568. In addition to the \$3,627,595 reduction in apportionment, District reserves of \$2,322,198 will be needed to balance the 2011/12 Budget.
- The Board Reserve will be budgeted at 6 percent of the anticipated expenditures.
- The remaining balance of \$1,639,460 will be budgeted in the Set Aside for the Master Planning Resource Allocation Process in 2012/13, encumbrances and other authorized carryover accounts.

**2011-12 Final Budget**

Based on the above information and assumptions, the proposed 2011-12 Final Budget for the unrestricted General Fund would be as follows:

	2009-10 <u>Actual</u>	2010-11 <u>Actual</u>	2011-12 Final <u>Budget</u>
Beginning Balance	\$ 7,540,525	\$ 10,869,439	\$ 10,884,568
Prior Year Adjustments	\$ 510,109		
Income:			
8100 Federal	\$ 403,056	\$ 81,202	\$ 36,500
8600 State	40,797,367	41,707,410	37,057,784
8800 Local	11,355,281	11,309,206	11,747,839
8900 Transfers-In	<u>127,499</u>	<u>133,576</u>	<u>130,000</u>
Total	\$ <u>52,683,203</u>	\$ <u>53,231,394</u>	\$ <u>48,972,123</u>
Begin Bal + Income	\$ 60,733,837	\$ 64,100,833	\$ 59,856,691
Expenditures:			
1000 Faculty Salaries	\$ 19,995,587	\$ 20,458,211	\$ 20,416,631
2000 Classified Salaries	8,747,783	9,165,843	9,717,648
3000 Benefits	12,407,737	13,303,141	14,479,208
4000 Supplies	694,928	638,087	882,022
5000 Services	4,939,556	5,525,264	5,841,612
6000 Capital Outlay	405,166	955,972	731,295
7000 Transfers-Out	<u>2,673,641</u>	<u>3,169,747</u>	<u>2,853,500</u>
Total Expenditures	\$ <u>49,864,398</u>	\$ <u>53,216,265</u>	\$ <u>54,921,916</u>
7900 Ending Balance	\$ 10,869,439 =====	\$ 10,884,568 =====	\$ 4,934,775 =====
Percentage	21.8%	20.4%	9.0%

**Major Components of the projected 2011-12 Ending Balance**

Reserve for Contingency @ 6.0%	\$ 3,295,315
Set Aside for Encumbrances	127,933
Set Aside for Carryover	88,431
Set Aside for One-time Expenditures (2012/13)	<u>1,423,096</u>
Total	\$ 4,934,775