

**MERCED COLLEGE
Office of the President**

BOARD AGENDA BACKUP

**PRESENTED TO THE BOARD OF TRUSTEES OF THE
MERCED COMMUNITY COLLEGE DISTRICT
AT THE SEPTEMBER 4, 2012, MEETING OF THE BOARD**

Item: The Proposed 2012-13 Final Budget

Presented By: Larry M. Johnson

For: **Information** **Action** **X**

Background Information

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

The 2012-13 budget bill, AB 1464, was signed by Governor Jerry Brown on June 27, 2012. For the second consecutive year, the State budget was passed on time and with no Republican votes. The final budget assumes total General Fund expenditures of \$91.3 billion, \$4 billion more than in 2011-12 but still \$11 billion below the 2007-08 fiscal year. In January, the budget deficit was estimated at \$9.2 billion. However, the Governor's May Revision projected a \$15.7 billion shortfall. The adopted State budget closed this gap through a combination of spending cuts, funding shifts, and the assumption of voter approval of the Governor's November tax initiative (Proposition 30).

2012-13 State Budget – Impact to Community Colleges

The adopted State budget assumes passage of Proposition 30 and includes the following items:

- ◆ Provides no base workload reductions.
- ◆ Provides \$50 million in growth/restoration funding.
- ◆ Provides \$159.9 million to partially "buy down" the State apportionment deferral, reducing total deferrals from \$961 million to \$801.1 million
- ◆ Maintains the SB 361 funding system. The Governor's proposal to repeal the current FTES-based funding process was rejected by the Legislature.

Proposed 2012-13 Final Budget

September 4, 2012

Page 2

- ◆ Features no policy changes to categorical programs.
- ◆ Provides no Cost-of-Living Adjustment (COLA).
- ◆ Provides full hold harmless protection from potential shortages in RDA-related revenues.
- ◆ Creates a Mandates Block Grant, allowing districts to elect to receive \$28 per FTES for compliance with mandates in lieu of filing reimbursement claims.
- ◆ Provides for the extension of categorical flexibility provisions adopted in 2009-10 for two additional years, through 2014-15.

Failure of Proposition 30 – Trigger Cuts

If Proposition 30 is not approved by the voters, automatic budget reductions will be triggered. Community colleges would be impacted as follows:

- ◆ Lose \$50 million in growth/restoration funds
- ◆ Lose \$159.9 million in deferral buy down
- ◆ In addition, a base reduction of \$338.6 million will be implemented (7.3% workload reduction equaling approximately 665 FTES)
- ◆ Would slow growth in the Proposition 98 guarantee

State Budget – Impact on Merced College

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

Revenue:

- ◆ Assumes passage of Proposition 30. However, the \$50 million growth/restoration funding is not included in the Proposed Final Budget. This funding could potentially result in additional revenue of \$384,511 to the District, although it may not be received until the 2013-14 fiscal year.
- ◆ Assesses a 3% deficit factor against State apportionment revenue, for a reduction of -\$1,374,923.
- ◆ No COLA has been budgeted.

Proposed 2012-13 Final Budget

September 4, 2012

Page 3

- ◆ The Part-time Faculty Compensation is budgeted based on unspent dollars received in 2011-12, plus additional funds to be received in 2012-13. As ratified by MCFA, this allocation will fund the new Part-time/Overload salary schedule.
- ◆ Nonresident tuition rates will remain at a level of \$208 per unit. It is anticipated that the number of out-of-state athletes will remain level as the athletic programs remain unchanged.
- ◆ The Tentative Budget included a \$700,000 loan from the Retiree Health Fund. However, due to a higher than expected 2011-12 ending balance, this internal loan has been excluded from the Proposed Final Budget.

Expenditures:

- ◆ The full-time faculty obligation remains frozen at 174.6 FTEF. Therefore, two vacant faculty positions will be filled in 2012-13 in the Sonography and Non-credit programs to maintain the District's AB1725 requirement at a projected net savings of \$58,515. Both vacant positions are replacements for current year retirees.
- ◆ Two additional faculty positions are currently vacant and will not be filled in 2012-13. As a result, they were not included in the Proposed Final Budget. These vacancies will generate a savings of approximately \$184,860.
- ◆ One management position, the Vice President, Technology & Institutional Research (VP TIR), continues to be vacant. It is anticipated this position will be filled in 2012-13. However, we do not expect the position to be filled within the first six months of the fiscal year and have only funded the position at six months, generating savings of \$88,871.
- ◆ Classified positions not filled in 2011-12 will remain unfilled in 2012-13; therefore, are not included in the budget.
- ◆ Health benefits for SISC medical rates will increase as follows:
 - 10.03% for Medical, for an additional cost of \$410,936
 - 10.11% for Dental (Classified/Management only), for an additional cost of \$26,820
 - Dental (Certificated only) and vision rates will remain the same as 2011-12.
- ◆ The PERS rate will increase by 1.2%, from 10.923% to 11.054%, for an additional cost of \$12,600.

Proposed 2012-13 Final Budget

September 4, 2012

Page 4

- ◆ The District's contribution rate for State Unemployment Insurance has decreased from 1.61% to 1.10%, which is a reduction in cost of \$148,394. As in 2011-12, 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 2012-13.
- ◆ Workers Comp rates will increase by 2.65%, from \$1.472/\$100 to \$1.511/\$100, for an additional cost of \$11,442.
- ◆ Salaries have been adjusted for step and column increases including 2012-13 classified longevity bonuses.

Faculty	\$221,536
Adjunct Faculty	60,000
Classified	154,048
Management Team	<u>151,904</u>
Total	\$587,488

- ◆ All retirees, including employees that have filed intent to retire, have been budgeted in the Retiree Health Benefits.
- ◆ Rates for liability and employment practices and auto physical damage insurance have decreased by 13% from 2011-12. Rates for property insurance have increased by 4% over the prior year. These rate changes have resulted in a decrease in premium cost of \$39,974.
- ◆ Rates for student insurance will increase by 5.8%, an increase of \$4,363 for 2012-13. 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 2012-13 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.

Proposed 2012-13 Final Budget

September 4, 2012

Page 5

- ◆ It is anticipated that the City of Los Banos will increase utility rates by 18% for 2012-13, at an additional cost of \$4,680. Other utility companies are not anticipating rate increases at this time.
- ◆ Maintenance agreements are projected to increase by \$62,230.
- ◆ 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 2012-13 Proposed 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

- ◆ The master planning committees have completed their work for the 2012-13 Master Planning Resource Allocation Process (RAP), previously referred to as "One-time expenditures". The list of items totaling \$2,703,045 went through each master planning committee for review and comment which was then forwarded to EMPC for final consideration. For planning purposes three categories (critical, necessary and postpone) have been established to determine funding levels for the 2012-13 fiscal year. Estimated costs by category are as follows:

Critical/Planned Expenditures (funded)	\$ 216,119
Critical/Planned Expenditures (not funded)	296,948
Necessary (not funded)	724,281
Postpone (not funded)	1,212,319
Life Cycle (not funded)	<u>253,378</u>
	\$ 2,703,045

The funding level for the Resource Allocation Process for the 2012-13 Final Budget will be \$216,119. This only includes four items from the Critical list plus a reduced amount of the three items on the Planned Expenditures list. Additional items may be considered for funding as savings are realized.

- ◆ Expenditure budgets included in the adopted 2011-12 Final Budget was initially rolled-over to 2012-13 as a starting point for budget development. In an effort to reduce expenditures in 2011-12 and 2012-13, the District implemented several cost savings strategies identified from a collaborative effort of the campus community. These collective strategies resulted in District reductions of \$1,309,248 for 2011-12 and \$2,741,657 for 2012-13. It is anticipated that selective General Fund reductions will be restored in future budgets.

Proposed 2012-13 Final Budget

September 4, 2012

Page 6

- ◆ As part of the budget reduction strategies mentioned above, the District has budgeted full-time salary and benefit expenditures at only 98%. This strategy provides budget savings of \$846,844 in 2012-13, and is included in the \$2,741,657 savings amount noted above.
- ◆ In addition to the reductions mentioned above, the Superintendent and Vice Presidents were each asked to identify potential 10% and 15% reductions from their respective discretionary budgets. The 2012-13 Proposed Final Budget includes reductions at the 15% level for a total savings of \$555,387.
- ◆ Based on the information above, the cost savings strategies implemented by the District have resulted in total budget reductions of \$4,606,292.

Reserves:

- ◆ The ending balance for 2011-12 was \$7,760,083. In addition to the \$1,374,923 reduction in apportionment to reflect the 3% deficit factor, District reserves of \$2,768,183 will be needed to balance the 2012-13 budget.
- ◆ The District is projecting a 2012-13 ending balance of \$3,616,977.
- ◆ It is important to note that the Proposed Final Budget is based on the passing of Proposition 30 in the November election. If the initiative fails, it will trigger an automatic \$2,935,562 apportionment cut to the District. The District will partially absorb the trigger cut with the 3% deficit factor already factored into the Final Budget. Therefore, the additional reduction to the District would amount to \$1,560,639 (\$2,935,562 less \$1,374,923).
- ◆ The Board Reserve will be budgeted at 6% of the anticipated expenditures.
- ◆ The remaining balance of \$348,926 will be budgeted in the Set Aside for the Master Planning Resource Allocation Process in 2013-14 and other authorized carryover accounts.

Proposed 2012-13 Final Budget

September 4, 2012

Page 7

2012-13 Final Budget

Based on the above information and assumptions, the proposed 2012-13 Final Budget for the unrestricted General Fund would be as follows:

	2010-11 <u>Actual</u>	2011-12 <u>Actual</u>	2012-13 Final <u>Budget</u>
Beginning Balance	\$ 10,869,439	\$ 10,884,568	\$ 7,760,083
Income:			
8100 Federal	\$ 81,202	\$ 36,606	\$ 36,500
8600 State	41,707,410	37,125,988	36,096,404
8800 Local	11,309,206	10,960,609	11,876,575
8900 Transfers-In	<u>133,576</u>	<u>163,974</u>	<u>160,000</u>
Total	\$ <u>53,231,394</u>	\$ <u>48,287,177</u>	\$ <u>48,169,479</u>
Begin Bal + Income	\$ 64,100,833	\$ 59,171,745	\$ 55,929,562
Expenditures:			
1000 Faculty Salaries	\$ 20,458,211	\$ 19,726,520	\$ 19,544,817
2000 Classified Salaries	9,165,843	9,512,676	9,756,874
3000 Benefits	13,303,141	13,716,892	14,178,202
4000 Supplies	638,087	631,204	787,127
5000 Services	5,525,264	5,007,880	5,293,365
6000 Capital Outlay	955,972	659,311	164,442
7000 Transfers-Out	<u>3,169,747</u>	<u>2,157,179</u>	<u>2,587,758</u>
Total Expenditures	\$ <u>53,216,265</u>	\$ <u>51,411,662</u>	\$ <u>52,312,585</u>
7900 Ending Balance	\$ 10,884,568 =====	\$ 7,760,083 =====	\$ 3,616,977 =====
Percentage	20.4%	15.1%	6.9%

Major Components of the projected 2012-13 Ending Balance

Reserve for Contingency @ 6.0%	\$ 3,138,755
Set Aside for Encumbrances	61,229
Set Aside for Materials Carryover	68,067
Set Aside for One-time Expenditures/Carryover	<u>348,926</u>
Total	\$ <u>3,616,977</u>