

Temple, Bob

From: Skinner, Erik [eskinner@CCCCO.EDU]
Sent: Thursday, March 19, 2009 6:10 PM
To: SO2CBO@LISTSERV.CCCNEXT.NET
Subject: Budget Update--March 19, 2009
Attachments: Memo from Chancellor Jack Scott RE: Federal Economic Stimulus funding

Dear Colleagues:

The state budget process is once again in full gear. In reality it never slowed down after the passage of 2008-09/2009-10 budget package on February 19. Almost immediately, attention turned to the Federal Economic Stimulus package and how these resources will be used to help address California's needs by creating jobs, restoring programs, and balancing the state budget. Attention in the State Capitol is currently focused on the upcoming special session, a newly identified budget shortfall for 2009-10, and the massive infusion of new federal funds. There is a tremendous degree of interaction among these events. Propositions on the May 19 ballot will determine whether \$5.9 billion in budget solutions assumed in the February budget package are, in fact, achievable. The new federal funds provide an opportunity for state leaders to avert additional program cuts that might otherwise be required to due to projected \$8 billion decline in state revenues in 2009-10. You can imagine that with this many moving pieces and the full contingent of public interests weighing in, the state budget process is as dynamic as ever.

Below are some of the major issues shaping the budget process:

Ballot Initiatives

As part of the February budget package, the Legislature agreed to place a total of five ballot measure before the voters in a statewide special election scheduled for May 19. One additional measure—a constitutional amendment to establish an open primary system—will be placed on the ballot in 2010. Three of the May 19 measures have significant fiscal consequences for the state in the 2009-10 fiscal year. These are:

- Proposition 1C—which would enable the state to borrow funds in the credit markets and repay these funds from future proceeds of the State Lottery. This Proposition would provide the state with \$5 billion in 2009-10 and \$5 billion in 2010-11.
- Proposition 1D—which would authorize the state to redirect a portion of childhood development funds authorized by the voters under Proposition 10 to support existing childhood development programs, thereby reducing state costs. This redirection would generate \$608 million in savings for 2009-10 and \$268 million annually thereafter.
- Proposition 1E—which would authorize the state to redirect mental health funding authorized by the voters under Proposition 63 to support existing mental health programs, thereby reducing state costs. This redirection would generate \$227 million in savings during 2009-10 and up to \$234 million in savings in 2010-11.

For 2009-10, these three propositions represent \$5.9 billion in budget solutions that are already built into the budget package enacted last month. Therefore, if the measures fail, it would result in a significant budget shortfall that state leaders would need to address through additional cuts, taxes, or borrowing.

Two other Propositions would have significant implications for the state budget, however, they would not impact the 2009-10 fiscal year:

- Proposition 1A would establish a “rainy day fund” that would constrain state spending so that short-term revenue spikes are placed in a savings account to address years in which revenues lag. It should be noted that the duration of many of the temporary tax increases enacted in the February budget package are tied to the failure or passage of Proposition 1A. If the measure fails, then the tax increases will be in effect for two years; if the measure passes, then the taxes will be extended for another one to two years.
- Proposition 1B would ensure that funding for colleges and K-12 schools is increased by \$9.3 billion in future years in order to resolve a dispute over Proposition 98 calculations that emerged during special session budget deliberations. Proposition 1B is crafted so that it will not go into effect unless Proposition 1A is approved by the voters.

LAO Projects an \$8 billion Fall in Revenues

On March 13, the Legislative Analyst’s Office (LAO) issued a budget report entitled “The Fiscal Outlook Under the February Budget Package” (available at http://www.lao.ca.gov/2009/bud/feb_overview/feb_overview_031309.pdf). This report provides an updated fiscal outlook for the state reflecting the recently enacted budget package as well as new economic projections. Major findings include:

- The state’s economic and revenue outlook continues to deteriorate.
- State revenues for 2009-10 are projected to fall \$8 billion short of the levels assumed in the recently adopted budget package. Because the budget package has a \$2 billion reserve for 2009-10, LAO pegs the budget deficit at \$6 billion.
- This drop in revenues is projected to cause a \$3.6 billion decline in the Proposition 98 minimum funding guarantee for 2009-10. This would allow the Legislature to cut funding for K-12 schools and community colleges by this amount in 2009-10 without suspending Proposition 98.
- LAO recommends that the Legislature reduce Proposition 98 funding by roughly \$3 billion in 2009-10 and backfill these cuts with federal funds.
- The new infusion of federal economic stimulus funds provides an opportunity to close the budget gap without making significant new cuts or raising new taxes.
- LAO recommends raising CCC student fees by 100 percent to \$40 per unit in order to take advantage of new expansions in federal financial aid. It is important to note that LAO has made similar recommendations for many years without success and we have not received any indication that the Legislature is jumping on board this recommendation. We have raised concerns that such a massive increase in fees would have incredibly disruptive impacts on students, families, and colleges. We are encouraging state leaders to see the expansion in federal financial aid as an opportunity to improve college affordability and student success, rather than a windfall to the state coffers.

These findings and recommendations will help to frame upcoming legislative budget hearings. It is worth noting that the updated revenue projection is not typical this time of year. Normally, the revenue picture would not be updated until after April when the majority of state tax receipts are collected. LAO may have felt a need to warn Legislators of softening revenues in order to keep them from spending the new federal revenues on program expansions. In any case, much more solid estimates will be provided later in the Spring as part of the Governor’s May Revision. Given recent economic trends, there is a general concern that the revenue numbers may grow worse compared to LAO’s recent forecast.

Federal Economic Stimulus Package

Under the Federal Economic Stimulus package, California will receive an estimated \$31 billion in federal aid during the current and next two fiscal years. Of this amount, K-12 and higher education are expected to receive \$7.9 billion in a variety of areas, such as grants, subsidized bonds, tax credits, and subsidies to individuals,

colleges, and local educational agencies. The federal package also provides \$6 billion to fund various labor and workforce development activities, of which the community colleges are in a strong position to secure a portion of these funds. The attached memo from Chancellor Scott outlines the elements of the package that present funding opportunities for the community colleges. In particular, I encourage you to review the local Workforce Investment Act funds which will be allocated on a more expedited basis.

Just as a note, the LAO's proposal to reduce Proposition 98 spending by \$3 billion and backfill with federal funds (described above) would rely upon resources from the "State Fiscal Stabilization Fund."

CCC Budget Advocacy

California Community College advocates have hit the ground running this year:

- On March 3rd the Board of Governors sponsored a California Community College Advocacy Day during which teams of community college representatives—administrators, faculty, students, staff—met with Legislators and key budget staff to discuss budget and legislative priorities. Key themes were: 1) the community colleges are the key to California's economic recovery; 2) the colleges are meeting the needs of hundreds of thousands of unemployed Californians and thousands of students displaced from UC and CSU due to restricted admissions; and 3) please continue to protect the capacity of the community colleges to serve California. Groups also thanked state leaders for taking steps to minimize the fiscal damage to the colleges in the recent budget package.
- Other groups, including the Community College League of California and the Faculty Association of the California Community Colleges Community College, have also hosted successful advocacy days in the Capitol.
- On Monday of this week, community college students held a rally at the State Capitol. The event had an impressive showing of more than 5,000 students and a well-crafted message, thanking state leaders for protecting the community colleges while also calling on them to protect and increase investment in public education.
- On Tuesday, Chancellor Jack Scott addressed the Assembly Budget Subcommittee #2 on Education and presented an overview of community college budget priorities. He was greeted with a warm and enthusiastic welcome from his former colleagues in the Legislature.

Delay in Governor's May Revision

In an interesting twist on an already strange year, the Governor's May Revision—typically released May 14—will instead be released later, most likely around June 8. For those not familiar with the state budget process, the May Revision provides the Governor with an opportunity to update his budget proposal based on more current revenue and caseload information. This one-time change in the release date was made as part of the February budget package to give the Administration time after the May 19 special election to adjust its proposal based on the outcomes of the three Propositions with 2009-10 implications. Chancellor's Office staff will present the latest budget information available at the ACBO Spring Conference, May 18-20 in Sacramento.

Apologies for the length of this update, but there has been a lot of activity to report. Indeed, it is a very volatile and unusual time for the state budget. In the coming weeks and months, I encourage you to stay informed and engaged. The next four months present a period of considerable risk for the colleges as the state budget picture deteriorates, and at the same time a period of great opportunity as large amounts of federal funding become available for key community college priorities such as workforce training and student financial aid. Our advocacy will be more important than ever as we move ahead in order to ensure that we emerge in the strongest position possible.

More updates to follow as the situation unfolds.

Regards,

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Temple, Bob

From: scottlay@cleague.org
Sent: Thursday, March 26, 2009 8:57 AM
To: Temple, Bob
Subject: Assessing the budget risk



March 26, 2009

Dear Robert,

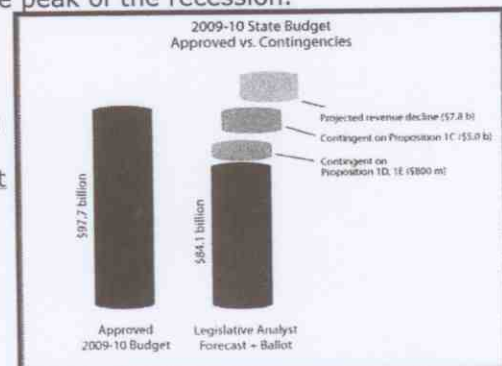
As I cross the state this week--from Monday's Phi Theta Kappa luncheon to visits at Cuesta, Santa Barbara City, and Contra Costa Colleges--I am hearing increasing fear about what risks community colleges face as the state's economy and budget situation continue to crumble. Last night, I visited with education doctoral students at UCLA representing both public and private K-12 and higher education, and the fear was palpable as many of them worried about their jobs and the students they serve.

Meanwhile, many community college leaders are meeting now to talk about their 2009-10 budget, and wondering how to get a budget put together when so many uncertainties are present. It is impossible to provide exact guidance as many factors will drive the budget discussion, as revenues are clearly down, the fate of May 19 budget-related ballot measures is unclear, and case loads in public safety, health and human service programs are increasing, but nobody knows by how much. Nevertheless, I wanted to provide you with a little bit of information that can help you assess the risk to community colleges, so we can all prepare for what might be ahead.

Two weeks ago, the state's nonpartisan Legislative Analyst's Office (LAO) released its first comprehensive review of the spending plan. In it, the LAO cautioned lawmakers that the plan is already significantly out of balance. Specifically, the Legislative Analyst projects that revenues in 2009-10 will be \$7.8 billion less than approved in the budget act, which creates a shortfall accounting for 8.0% of the overall budget. This is the result of the state's unemployment rate soaring to 10.1% in January -- a number that was previously expected to not be reached until the peak of the recession.

Unfortunately, many analysts now believe that even the LAO's disappointing forecast was too rosy. Budget-writers are now talking about a shortfall in revenues of \$10-12 billion--even with the \$12.5 billion increase in taxes over the 18-month spending plan. With economists now predicting the state's unemployment rate will reach 11.9% by 2010, this is likely a deeper and more prolonged budget problem than anyone imagined.

Additionally, the approval by the voters of three ballot measures that account for \$5.8 billion of the state budget on the May 19 ballot is anything but certain. The Public Policy Institute of California poll released this morning shows an almost insurmountable political hurdle for Proposition 1C, the lottery securitization measure that the state is counting on for \$5 billion in revenue in 2009-10. The measure has just 37% support and 50% of voters plan to vote "no" on the measure. The Proposition 10 (early childhood education) and Proposition 63 (mental health) redirects also trail, and they account for \$800 million in the 18-month budget plan.



If the Legislative Analyst's Office is correct in its revenue projections and the ballot measures fail, there would be a \$13.6 billion shortfall in the 2009-10 budget, with the possibility of a \$15-17 billion shortfall if

the latest rumored estimates prove true. ([larger chart version](#))

Proposition 98

With the lower revenue projections, the Proposition 98 guarantee for community colleges will drop from between \$3.6 billion (LAO) to over \$5 billion (latest rumors). The Legislature could backfill most of this drop on a one-time basis with federal funds, and significantly help the state's general fund. However, education advocates would likely oppose such a move, as it would create a huge Proposition 98 hole in 2010-11 and beyond. Nevertheless, legislators and the governor may have no choice. In summary, it's possible that funds could be cut significantly in 2009-10 for K-12 and community colleges, but the largest impact wouldn't be felt by community colleges until 2010-11 fiscal year. Under the larger revenue shortfall estimates, however, there wouldn't be enough federal funds to backfill the 2009-10 reduction, and between \$100-200 million could be cut from community colleges.

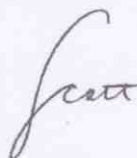
Community College Revenues

In addition to the overall revenue picture, community colleges are likely to face apportionment shortfalls in 2009-10 from both an operational shortfall in our apportionment calculation (\$40 million) and declining local property taxes. While property taxes have been extraordinarily difficult to project, the latest developments of the housing market picking up due to financial institutions bundling and selling loans at a huge discount to investors who can sell them for much less than their assessed valuation and realize a profit could lead to huge numbers of properties being reassessed lower, leading to lower property tax revenues. Unfortunately, there is no way to know what this impact will be until the situation transpires.

Districts should prepare for an apportionment shortfall of at least the 1.2% expected in the current year, and the number is likely to escalate depending on the property tax situation.

In closing, these are very difficult times for our state and its community colleges. While we have been treated comparatively well in the early budget debates, the situation is clearly worsening. Further, community colleges are on the front lines of this economic crisis. Nobody is left untouched--students, faculty, staff, administrators and trustees. Indeed, many of the people that put on a strong face to make this system work every day return home facing the same scary personal crises that our students face. This is a time for us to work together to be creative, find ways to continue serving students while our funding may indeed decline, and most importantly to treat people compassionately. We are all here for the same purpose, to serve students, and to bring our diverse backgrounds together to find solutions for the challenges we face.

Community colleges have weathered many crises before, and we will again this time.




Scott Lay
President and Chief Executive Officer

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MEMO

To: NOELIA VELA, DEB DANIELS, GLORIA HARRISON,
RENEE BRUNELLE AND LARRY CIECALONE

From: Robert J. Temple 
Vice Chancellor

Date: March 16, 2009

Subject: DEVELOPMENT FY 2010 BUDGET

The reductions in ongoing expenses due to the faculty and management SERP, along with the elimination of vacant positions and the increase in growth income, has allowed us to budget the same base budget next year, 2009-2010, as the current year, 2008-2009.

Included in this packet are:

1. District Budget Calendar 2009-2010.
2. Board adopted directions.
3. Base budget printouts.
4. Budget printouts for your area of responsibility. Those budgets include only the general fund unrestricted noncategorical base budgets. These printouts include the working 2008-2009 budget and expenditures (including encumbrances) as of March 13, 2009. The amounts listed under fiscal year 2009-10 are the same amount as were budgeted this year. If you wish to have the same amount, simply leave it untouched. If you wish to change the amount, line out the pre-supplied amount and write the new amount in. The budgets you are asked to submit include only objects 13XX, 14XX, 23XX, 24XX, 4XXX, 5XXX and 6XXX or the usual base budget objects.
 - The attached budget printouts reflect your general fund unrestricted base for this year.
 - The amount of 13XX funds necessary to maintain our target FTES for next year will be worked out with the vice presidents of instruction and college presidents. Both colleges should budget exactly the same 13XX base budget for next year as the current year in total. Funds not used in 1307 summer should be placed in either 1300 or 1302. The amount of money necessary to be added to each college in either site 31 or 32 will be put in by the District in consultation with the vice presidents of instruction and presidents.

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- No COLA money is provided for at this time. Therefore, if you have known or anticipated increases in costs, you should move money into those accounts from elsewhere.
- There will be no fallout in the current year, and all unexpended funds will become part of the ending balance.
- We have often had two runs or attempts at submitting budget requests before adopting the tentative budget in June. Significant information is not expected to be received in time for adjustments to the tentative budget before the board adopts our budget in June.
- Since we will not be able to do any budget transfers from July 1 until early October and because our electronic purchasing system requires that both the account exist and have sufficient funds, **it is essential that you budget funds where they will be needed through October.** Care should be taken to plan ahead and anticipate expenditures that will be necessary over the summer and the start of the fall term. You should avoid budgeting large amounts in holding accounts and should instead commit and place those funds where they will be needed.
- Categorical budgets are also distributed. We will be preparing categorical budgets so that the budgeted expenditures meet and do not exceed budgeted revenue. If information of a reliable nature such as major changes in the May revision of the governor's budget adds funds back, then we will revise our budgets accordingly. We must, however, develop budgets for categorical programs that balance expenditures with expected income. To do otherwise would require further reductions elsewhere in the colleges base budgets.
- You are not only encouraged but I consider it essential that you reallocate funds from their current budget to the highest priority your budgeting process identifies. It should be noted that there is no requirement or implication from me that the base budgets of any single program under your supervision is to stay the same. The concept of a base budget is only applied to the total funds allocated to each site and not any program or department. It will probably be necessary to reallocate funds among programs if you are to achieve your college objectives in this environment of limited resources.

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- Your budget preparation should anticipate the possibility of additional resources being made available late in the budget planning process; therefore, prioritize your increase in such a way that it is known what is the first thing to be added back, the second, and so forth should additional resources become available. The site CEO must submit the budget with their signature verifying compliance with the guidelines requested and base budgets established.
- The base budget for each site is attached to this memorandum. The base budget for CHC is \$3,464,329. The base budget for SBVC is \$8,810,831. You must submit a budget back to this office by May 1, 2009. These budgets may not exceed the base amounts listed above. The prioritized requests above the base should be submitted in a narrative with the budget.

Cc: Penny Ongoco, Ron Gerhard, College Vice-Presidents

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**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
DISTRICT BUDGET CALENDAR 2009-2010**

<u>DATE</u>	<u>ITEM</u>	<u>ACTION</u>
1/15	BUDGET CALENDAR TO TRUSTEES FOR ADOPTION	FISCAL SVCS
2/12	ESTIMATED AVAILABLE RESOURCES AND RECOMMENDED DISTRIBUTION OF RESOURCES TO TRUSTEES FOR ACTION AND BOARD DIRECTION	CHANCELLOR
3/12	REVIEW BOARD DIRECTIONS AND GOALS WITH DISTRICT BUDGET COMMITTEE	VICE CHANCELLOR
3/17	PRIOR & CURRENT YEAR LINE BUDGETS, INSTRUCTION PACKET, AND BUDGET CALENDAR (BUDGET PACKET) DISTRIBUTED TO CAMPUS PRESIDENTS AND CHANCELLOR	FISCAL SVCS
3/20	BUDGET PACKETS DISTRIBUTED TO RESPONSIBILITY CENTERS TOGETHER WITH POLICIES AND APPROPRIATE PROCEDURES	PRESIDENTS CHANCELLOR
5/01	COST CENTERS REQUEST BUDGETS PRESENTED THROUGH CHANNELS TO PRESIDENTS/CHANCELLOR IN ACCORDANCE WITH SITE CHIEF EXECUTIVE OFFICER (CEO) CALENDAR	SITE CEO
5/04	SITE BUDGET REQUESTS TO VICE CHANCELLOR OF FISCAL SERVICES	SITE CEO
5/28	BOARD BUDGET STUDY SESSION OF FY 2010 BUDGET	CHANCELLOR
6/03	PRELIMINARY BUDGET SUBMITTED TO CHANCELLOR'S CABINET FOR REVIEW/DISCUSSION/RECOMMENDED ADJUSTMENTS AS REQUIRED	FISCAL SVCS TO CABINET
6/11	TENTATIVE BUDGET TO TRUSTEES FOR ADOPTION	CHANCELLOR
8/13	BEGIN REVIEW OF POSSIBLE BUDGET CHANGES AND IMPACTS WITH DISTRICT BUDGET COMMITTEE	VICE CHANCELLOR
9/03	PUBLIC HEARING AND FINAL BUDGET ADOPTION	TRUSTEES

Robert J. Temple, Vice Chancellor of Fiscal Services

*Note – Budget workshops may be additionally scheduled.
Budget Committee

FISCAL YEAR 2009-2010 BUDGET

- GOVERNOR'S PROPOSED 2009-2010 BUDGET

The governor is proposing a budget that provides no COLA, no increase in funding and he also proposes that growth be funded at only 3.00% statewide.

- COST INCREASES FACING SBCCD NEXT YEAR

1. Step and column increases are estimated at \$1.4 million.
2. Unknown increases in prices of supplies, equipment and utilities.
3. Unknown increases in medical benefit costs.
4. Unknown impact of State income payment.

- ESTIMATED INCOME FOR FISCAL YEAR 2009-2010

While the governor's proposed budget is far from final, it is a starting point we use to begin our budget planning. There is much debate whether his budget, as proposed, will survive as presented. One thing there seems to be near consensus about is that it will likely be a very late budget. While we are just beginning our estimates of income, we have recovered all of our lost FTES from last year. We will even have some growth beyond that but we will not know until the year is over. Whether or not there will be sufficient funds at the state level to fund growth will not be known until after the budget is adopted. We are likely to have enrollment in excess of our funding cap, but both colleges have made significant progress toward productivity goals and we are serving those students as efficiently as possible. There is a virtual certainty that property taxes will decline significantly both locally and statewide. This will, under present statute, mean a reduction in our income as no backfill is provided for that shortfall. The only proposal currently on the table is the Governor's proposed 2009-2010 budget. The legislature has not acted and every day that passes lowers the possible revenues and increases the likelihood of further reductions. In addition, the revenue forecasts are considered overly optimistic by most everyone especially the personal income tax projections; therefore, we should plan on the real likelihood of further reductions than currently proposed by the Governor.

- PRIORITIES RECOMMENDED BY STAFF

1. Maintain FTES levels or provide for efficient growth without additional costs.
2. Hold off on negotiations regarding salary or benefit changes until we know whether or not there will be any COLA, growth or funding changes. This will not be known until the budget is adopted.
3. No increases will be provided in the base budgets for the colleges during our initial budget planning. Instead, each site will be asked to reallocate funds to higher critical needs from less critical areas.

Priorities should be established for items above current year base budgets in the event of COLA funding or some other funding increases.

4. Plans and recommendations to reduce expenses such as utility use, travel expense and all other expenses should be considered and reviewed in an effort to reduce them.
5. In the event that no COLA or additional funding beyond current year budgets are available, critical needs need to be prioritized and consideration should be given to funding these critical needs with one time funds for the fiscal 2010 year.
6. Budget planning should be done on a two year basis. We will not know our income until likely after we begin the Fall 2010 term. If we need to reduce expenses in order to reallocate available revenue to critical areas in need, it will have to involve planning beginning next Fall.
7. All positions that become vacant should be evaluated for replacement. Some vacancies may not be replaced but instead left vacant or filled with hourly employees in order to save funds.
8. Efforts should be continued to reduce ongoing expenses as we need to be prepared for the scenario that could involve significant reductions in our income that may result as the state revenues are expected to decline during this economic recession.