



2013-2014 BUDGET WORKSHOP

**San Luis Obispo County Community College
District**

Board of Trustees

June 5, 2013

THE NATIONAL ECONOMY

- ⌘ The U.S. economy is beginning to ramp up
- ⌘ Indications of a strengthening economy
- ⌘ But risks remain

THE STATE ECONOMY

- ⌘ California continues slow path of recovery
- ⌘ Concerns regarding a bifurcated path of the state economy
- ⌘ Less risk of falling out of balance

STATE BUDGET RISKS ARE LOWER IN 2013-2014

The overall economic outlook is the best it has been in more than five years.

ADMINISTRATION'S DOWNWARD REVISION

- ⌘ May Revise more pessimistic economic outlook in 2013 and 2014
- ⌘ On the plus side, forecasts acknowledges:
 - Economy gaining strength in the first quarter of this year
 - Unemployment rate continues to fall, jobs being created
 - Housing market recovering
 - Inflation remains low, business profits up

ADMINISTRATION'S DOWNWARD REVISION

- ⌘ However, the January Budget assumed that the federal lawmakers would avoid across-the-board tax hikes and budget cuts

SLOWER GROWTH IN 2013-2014

- ⌘ As a result of the effects of the federal tax hikes and spending cuts on the economy, the DOF has lowered the outlook for California personal income growth in 2013 from 4.3% in January to 2.1% in the May revision.
- ⌘ Slowdown in economic outlook lowers the revenue forecast for 2013-2012 (\$1.3 billion)
- ⌘ Rebound is forecast to begin in 2014-2015 with tax revenues expected to grow 9.3% in 2014-2015 and 6.7% in 2015-2016

GENERAL FUND REVENUES 2012-2013

- ⌘ Tax increase have exceed projections
- ⌘ Improving economy is adding payroll jobs
- ⌘ Therefore, an upward revision in the 2012-2013 General Fund revenue of \$2.8 billion

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The question is: How much of the 2012-2013 gain has come at the expense of 2013-2104 revenues and how much will be on-going?

GENERAL FUND REVENUES – 2013-2104

- ⌘ In January it was forecasted that General Fund revenues and transfers in 2013-2014 of \$98.5 billion
- ⌘ In May Revision, forecast lowered to 2013-2104 \$97.2 billion
- ⌘ Long-term forecast is a substantial boost in 2014-2105 with increase of revenues of almost \$8 billion

THEMES FOR THE MAY REVISION

- ⌘ Economic growth, though slow, and the passage of Prop 30 provided more revenue in 2012-2013
- ⌘ Level of Prop 98 is increased by higher revenues
- ⌘ Details proposed on the community college augmentation proposal
- ⌘ Increase of \$4.5 billion that is committed to Prop 98

THE REST OF THE BUDGET

- ⌘ Additional 2012-2103 and 2013-2104 funding for K-12
- ⌘ Additional \$467 million in Medi-Cal costs
- ⌘ State short- and long-term borrowing costs
- ⌘ Additional \$72 million for county probation for lowering prison populations
- ⌘ Additional \$48 million for California Work Opportunity and Responsibility to Kids (CalWORKS)

GOVERNOR'S BUDGET MAY REVISION

- ⌘ Maintains fundamentals of the Governor's (January) Proposed 2013-2014 State Budget
- ⌘ Reflects that the state's economic and budget recovery is continuing
- ⌘ However, national outlook has dimmed since January.
- ⌘ Recent federal actions have slowed the pace of the state's economic recovery.

GOVERNOR INTENDS TO

- ⌘ Stop deficit spending
- ⌘ Develop a true balance budget
- ⌘ Build reserves

The Governor taking a conservative approach by seeing new money as one time.

- ⌘ The idea is to preserve the state's
 - safety net,
 - encourage job growth,
 - and pay down debt.

IN THE PAST FOUR MONTHS

- ¢ The state has experienced a multibillion increase in current year cash receipts:
 - Personal and Corporate Taxes are up year-over-year.
 - Sales/User Tax up year-over-year but needs to increase significantly)
 - Housing rebounding.

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but this influx is expected to be short lived.

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STATE BUDGET AS OF MAY REVISE

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- ⌘ State must ensure how future budgets will remain balanced after temporary Proposition 30 taxes expire

STATE BUDGET AS OF MAY REVISE

- ⌘ Schools are expected to benefit from this one-time increase.
- ⌘ Also proposed is an affordable and sustainable path for a state-based expansion of health care coverage.
- ⌘ Assumes a commensurate shift in some responsibilities to counties.

GOVERNOR VS LEGISLATIVE ANALYST'S OFFICE

How much of the 2012-2013 gain has come at the expense of 2013-2014 revenues and how much will be on-going?

GOVERNOR'S PROPOSAL

- ⌘ Apportionment
- ⌘ BOG Fee waiver Program Reform
- ⌘ Apprenticeship Programs
- ⌘ Property Tax Adjustment
- ⌘ Student Fee adjustment
- ⌘ Deferrals
- ⌘ Adult Education
- ⌘ Continue Block Grant Program for Mandated Costs

ASSEMBLY'S PROPOSAL

- ⌘ Use more one-time funds to pay down the current year's deferral.
- ⌘ Allocate significant funds for most categorical in 2013-2014.
 - Includes cost-of-living adjustments
 - In some cases full restoration to the 2007-2008 spending levels
- ⌘ Proposes increased funding for restoration/growth from 1.65% to 2.2%

SENATE'S PROPOSAL

- ⌘ More conservative than the Assembly but goes beyond the Governor's May Revise by providing \$30 million in one-time funds and around \$68 million more in ongoing funds for targeted categoricals.

Regardless, proposals are very favorable for the
California Community Colleges

CHALLENGES AHEAD FOR THE STATE BUDGET

- ⌘ Pace of the economic and revenue recovery is still uncertain.
- ⌘ Constitutional requirement of the federal courts for California to significantly reduce crowding and improved health care provided in prisons.
- ⌘ Federal government and courts have hindered the state's past efforts to reduce spending.
- ⌘ Actions taken by federal government to address its own fiscal challenges could further strain state's budget.

WHAT DOES THIS MEAN FOR THE DISTRICT?

- ⌘ 1.57% Cost of Living Adjustment (COLA)
Projected to be approximately \$701,000
- ⌘ Restoration of 1.5%
Still owed to the district \$3,126,552
Projected earnings is \$0
- ⌘ Additional support for implementation of the Student Success Act of 2012
Projected to be approximately \$396,000

CHANGE IN STRUCTURE OF GENERAL FUNDS

| | |
|---|--------|
| \$29.0 million Property Tax (Dec/April) | 64.59% |
| \$ 4.4 million Enrollment Fees | 9.80% |
| \$ 5.5 million EPA (Prop 30) (quarterly) | 12.25% |
| \$ 1.0 million Apportionment | 2.22% |
| <u>\$ 5.0 million</u> Deferred (to July 2014) | 11.14% |
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This is based on a workload (cap) of 8900 FTES.

CHALLENGES ON THE DISTRICT LEVEL

- ⌘ Cash Flow and Cash Insolvency.
- ⌘ Redevelopment Agencies (RDAs).
- ⌘ Costs of unfunded mandates.
- ⌘ Mandated expense with the implementation of the Affordable (Health) Care Act (ACA) of 2012, STRS and PERS.
- ⌘ Rising costs of technology, service contracts, supplies, and facility maintenance.
- ⌘ Ability to earn restoration funds.
- ⌘ Compliance with the 50% Law.

FCMACT LIST OF COMMON CAUSES FOR FINANCIAL PROBLEMS

- ⌘ Overly optimistic estimates of state economics
- ⌘ Failure to document or change budget assumptions
- ⌘ Underestimating “automatic” cost growth
- ⌘ Use of one-time money for on-going expenses
- ⌘ Poor budget monitoring by the Administration and Board
 - Execution of the budget
 - Budget Monitoring
 - Estimating the Ending Fund Balance (EFB)
- ⌘ Inadequate reserves

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- ⌘ *Debt issues*
- ⌘ ***Management of Cash***

REMEMBER....

- ⌘ Proposition 30 kept budgets at status quo
- ⌘ Proposition 30 is one-time money
- ⌘ Need economic recovery for continuous funding for growth

WHAT DOES THIS MEAN FOR THE TENTATIVE BUDGET BEING PRESENTED ON JUNE 19?

- ⌄ The basis of the 2013-2014 Tentative Budget will be the Governor's May Revision of his January Proposed Budget.
- ⌄ The budget will be balanced with some contingency funding.
- ⌄ The outcome of the adopted State Budget and the district's 2012-2013 ending balance will be the basis for the 2013-2014 Final Budget to be presented to the Board for adoption at the September Board meeting