

# VENTURA COUNTY COMMUNITY COLLEGE DISTRICT

## BUDGET ASSUMPTIONS AND GUIDELINES

### FISCAL YEAR 2012-13 (FY13)

Budget Assumptions are the basis for the financial projections of revenue and expenditures contained within the budget allocation process. While these Assumptions are based on the most current information available, it is recognized that ever-changing circumstances can alter the economic foundation upon which the Assumptions have been built.

The Governor has proposed a budget that addresses a state budget deficit of \$9.2 billion. This budget relies on expenditure reductions, revenue increases (tax increases that must be approved by the voters); and other measures. If the tax increases are not on the ballot or the voters fail to pass the increases in November 2012, the Community College system can anticipate significantly greater cuts (approximately \$6.8 million to VCCCD in additional reductions) for the fiscal year. In addition, the Governor's Initial Budget Proposal is only the beginning of the State budget process, and many variations to that proposal could occur prior to final approval of the State budget. In order to address these possibilities, while ensuring an adequate level of financial stability, it is recommended that the budget be built utilizing a combination of reductions in expenditures (class schedule reductions, organizational structural changes, and other staff and operational reductions), as well as the potential use of reserves.

Similar to the prior year, the Governor's initial budget includes midyear "trigger" cuts if the tax initiatives fail. In the current year (FY12), the District's expenditures are approximately \$3 million greater than our ongoing revenue (based on the triggers for this year). In addition, the District expects inflationary increases in personnel-related costs of approximately \$3 million district-wide. Therefore, the District will begin FY13 with a budget shortfall of approximately \$6 million dollars (without state action). It is probable that trigger cuts again will be implemented in the FY13 year due to failure of the tax initiative, a potential midyear revenue reduction to the District of an additional \$6.8 million. **It is therefore recommended that the Tentative Budget be built to eliminate a budget shortfall of approximately \$8 million; approximately \$3 million attributed to cost inflation, approximately \$3 million in initial FY12 budget deficit and FY12 triggers, plus an additional \$2 million to partially protect the District in the event of failure to pass the tax initiatives and the resulting FY13 trigger cuts.** This will still leave the potential trigger cut exposure to the District of \$4.8 million, which we recommend that the Board authorize be covered by reserves in FY13 should that occur.

If this recommendation is approved, and the tax initiative fails, the FY14 budget year will need to address the \$4.8 million of remaining FY13 trigger cuts as well as additional inflationary increase in expenditures of approximately \$3 million, for a total of \$7.8 million in FY14, plus any other FY13 on-going mid-year reduction as

well as any additional state reduction for FY14. Planning for the potential in FY14 will begin immediately.

**DCAS recommends, for the Adoption Budget, that if the District's projected revenue shortfall for General Fund-Unrestricted is greater than that projected in the Tentative Budget; the Board will authorize the additional use of reserves. This use of reserves allows for a one-year transition in order to develop more permanent and well-planned solutions**

Although these proposed reductions are significant, these guidelines provide a responsible allocation plan and are designed to allow the colleges to fund core priorities for FY13. They further allow adequate time to better prepare for more additional significant reductions beyond those to be experienced in the upcoming budget year, and to ensure fiscal stability and sustainability of the District in times of a historical statewide fiscal decline within a highly volatile process of State budget determination. In developing the final budget, the first priority will be to allocate resources sufficient to maintain those functions that support the core mission of the District and colleges in providing high quality instructional services.

The initial Budget Assumptions and Guidelines presented at this time are preliminary in nature and will be revised whenever significant and reliable information becomes available during the State budget development process. Events such as the "May Revise" of the Governor's Budget, state mid- and year-end adjustments (P2 apportionment) in June, ballot results, and legislative actions to approve a State budget may impact these Assumptions and the development of the Ventura County Community College District's budget. The Tentative and Adoption Budget will include personnel actions presented to the Board in March and April.

The budget is developed through a collaborative district-wide process that involves the Board of Trustees, the Chancellor and his Cabinet, DCAS (the District Council on Administrative Services, the district-wide budget committee), the Chancellor's Consultation Council, and in more specific detail through collaboration at each college.

The budget development process, the Tentative Budget, and the Adoption Budget will be based on the assumptions described in this document as modified periodically.

## **Revenue**

The Governor's budget provides the Community College System \$218.3 million to partially "buy back" the accounting deferral on the state's books. This would provide no additional operating funds for community colleges in 2012-13. **To partially protect the District in the event of midyear trigger cuts, \$2 million will be removed from revenue and be set aside as a contingency.**

## **Student Services**

Because of past years' budget reductions to categorical programs, the colleges developed integrated models to maintain core and/or mandated student services with the goal of meeting the unique needs of special populations beyond those mandates, and to better coordinate outreach, orientation, advisement and retention activities.

**The Governor's 2012-13 Budget proposes to consolidate funding for essentially all categorical programs into one "flex item".** This proposal is in contrast to the current flexibility option, which allowed consolidation of a smaller number of categorical programs and, once exercised, required that those funds only be spent for categorical purposes.

With the Governor's proposal, districts would have broad discretion, with the exception of appropriations protection for Foster Care Education Program and a portion of Disabled Students Program funds, to spend these monies on whatever they deem to be their local priorities to achieve student success. Categorical funds would, in effect, become general purpose monies. Under the Governor's plan, this new flexibility is intended to be permanent, with implementation beginning in 2012–13.

This consolidation proposal is contrary to the final recommendations of the Student Success Task Force, and is opposed by various student services and advocacy groups.

Because of the time expected to be required for transition, should this proposal be approved, the FY 2012-13 student services budgets will initially be developed within the existing individual categorical programs. The colleges are mindful that, should the consolidation proposal be included in the final State Adopted Budget, local priorities will need to be identified and a transition plan for the allocation of resources developed and ultimately implemented.

## **Enrollment Management**

The District receives revenue primarily through the generation of FTES (full-time equivalent students). The FTES are generated by campus; however, the state funded cap (the maximum number of full-time equivalent students for which the state will pay) is allocated by the State at a District level as opposed to an individual campus level. Since the budget has been declining over the past several year, the District has been serving a significant number of students (FTES) for which we do not receive funding. The budgets (and class offerings) for FY12 were built with the intent of significantly reducing that number of unfunded students, however the trigger reduction in funding was coupled with an additional reduction in funded FTES. It is projected that we will end FY12 with approximately 1,700 unfunded FTES.

**Similar to past years, in FY13 it is our intent to build the class schedule and resulting budgets to include a significant reduction in the unfunded FTES. The goal is to bring the unfunded FTES down to 500, approximately 2% of the District's total FTES. This goal is to ensure a cushion so that the district doesn't fall below funded cap. Each college will determine their specific class schedule and offerings, which will be gradually reduced and focused toward the colleges' core missions, resulting in serving students for which we are funded. The distribution of FTES reduction will be strategically made to ensure that Ventura College maintains its "medium size college" designation and further ensuring that Oxnard College does not reduce too rapidly causing a spiral effect.**

If the FY13 trigger cuts are enacted, the results would be an additional workload reduction to the District of approximately 1,500 FTES. The colleges' will have time to make adjustments to the spring schedule to partially reduce some of those unfunded FTES. If the tax initiatives are approved by the voters, we do not anticipate increasing the spring schedule, since we will still have approximately 500 unfunded FTES.

## **Expenses**

Expenditures will be developed with the goal of being sustainable within the projected reduction in state revenue. However, if reserves are used to mitigate the impact of the reductions in FY13, that solution will be temporary and will need to be addressed in FY14. **Budgets will be built to support preliminary priorities and plans for FY 13 and include the implementation of significant structural changes to the colleges and DAC.**

**If upon passage of the State budget, the District's projected overall shortfall for General Fund-Unrestricted is greater than that included in the Tentative Budget, it is recommended that the Board authorize the additional use of reserves so that mid-year operational reductions are avoided.** These reserves will come from the Revenue Shortfall Contingency and, if exhausted, the Unallocated Reserves. **The use of reserves allows for a one-year transition** in order to develop more permanent solutions to those solutions already included in the FY13 budget plan. Expenditure budgets will be built assuming there will be no mid-year reductions to the FY13 operating budgets.

## **Position Control**

Although there have been no general salary increases for the past several years, the costs of personnel (i.e., salary columns, steps and benefits) continue to increase. Care will be given to review and eliminate vacant positions and redundancies, and create consolidations where possible and necessary to reduce costs and increase efficiencies. Salaries include step and column increases only.

## **Proprietary (Enterprise) and Auxiliary Funds Bookstore/Food Service and Child Care Center**

The enterprise/auxiliary funds account for business operations that are managed similar to private enterprise and need to be self-supporting. Because of that requirement, as well as the difficulty to operate competitively within the changing commercial environment, we will be proposing significant changes to our commercial operations in order to be financially viable and avoid the need to use general fund to cover operating losses.

Over the past several years, the bookstores and food service operations have seen significant declines in sales and gross profit. This trend is expected to continue as students benefit from off-campus book and food service options. **In FY13 the bookstore will no longer offer online sales** as this option proved to be very labor intensive and there are numerous commercial options available to students.

The cafeterias have seen ongoing net operating losses over the past five years due to the decline of sales and the high cost of personnel. Although we have made significant changes to staffing patterns, losses continue. In FY13, **food services at Moorpark and Ventura colleges will change to an all vending operation. Oxnard College will continue to offer food service through their CRM lab, augmented with expanded vending services.** The expanded vending services will not require personnel. Therefore, those positions are being presented for elimination. In an effort to maintain the students' social environment, the cafeteria seating area will remain open for student use.

## **Structural Deficits**

Over the past several years the State has eliminated categorical funding for such items as Instructional Equipment/Library Materials (IELM), Scheduled Maintenance, Telecommunications and Technology Infrastructure Program (TTIP) funding for libraries, and the receipt of restricted lottery funds has significantly decreased. In addition, when that funding was provided by the State, the District eliminated the majority of any General Fund support for those items. The cost of these items has remained and, in fact, is growing. These items are central to the core mission of the colleges and the District, and remain un-addressed from a budgetary standpoint.

In order to address this structural need, a solution and phased-in funding plan will be presented to the Board under separate cover as a recommendation for modification to the current Budget Allocation Model.

## **Reserves**

The District has designated its ending balance into four categories: State Required 5% Minimum Reserve, Revenue Shortfall Contingency Reserve, Budget Carryover, and Unallocated.

### Budget Carryover

As a part of the current Budget Allocation Model, funds designated for Budget Carryover are currently limited to 1% of the prior year budget. **Because of the uncertainty of the state fiscal condition and the expected magnitude of the FY13 budget shortfall following the significant reductions in the prior three years, the sites will be allowed to carryover (into FY13) up to 2% of their prior year budget if those funds are available at the end of this year (FY12).** The limitation of 1% will be reinstated in subsequent years, perhaps through a recommendation of phase-in.

### State Required 5% Minimum Reserve

In accordance with the State Chancellor's Office Accounting Advisory FS 05-05: Monitoring and Assessment of Fiscal Condition, the State Chancellor's Office requires a minimum prudent unrestricted general fund balance of 5%. To ensure the District does not drop below this minimum requirement, the Board authorizes the segregation of this amount in a reserve designated for that purpose.

### The Revenue Shortfall Contingency Reserve

This reserve is designated to cover any mid-year reductions (including, but not limited to, statewide property tax shortfall, enrollment fee shortfall, general statewide deficit, mid-year "triggers", etc.), thus negating the need for mid-year reduction in operating budgets. This reserve was exhausted in FY12 due to trigger cuts, enrollment fee and property tax shortfalls, etc. The District faces these same potential mid-year revenue reductions in FY13; at a minimum, our remaining trigger cut exposure is \$4.8 million. We recommend the Board authorize the segregation of \$6 million (an increase of \$1 million from the prior year) to be transferred from the unallocated reserves to replenish the Revenue Shortfall Contingency Reserve for FY13 in order to cover any trigger cut exposure as well as any enrollment fee and property tax shortfall.

### Unallocated Ending Balance

Unallocated ending balance is the remaining balance that has not been designated for the other three reserves or uses. This balance is maintained in large part to augment cash to handle the significant cash flow requirements of the District as the State continues to delay our payments of millions of dollars in state apportionment (deferrals). The Unallocated balance would also be used to cover any mid-year budget reductions beyond what has been designated in the Revenue Shortfall Contingency Reserve, and for any other unanticipated/unbudgeted expenditures approved by the Board.

**DCAS recommends that the Tentative Budget be built utilizing \$2 million contingency against the failure of the tax initiatives. DCAS also recommends if, upon passage of the State budget, the District's projected revenue shortfall for general fund-unrestricted is greater than that assumed in the Tentative Budget; the Board authorize the use of additional unallocated reserves. Any reserves used to mitigate the impact of the reductions in FY13 will provide a temporary solution and will need to be addressed in FY14.** The use of reserves allows for a one-year transition in order to develop more permanent and well-planned solutions beyond that already included in the FY13 budget plan.

The balance of these Unallocated Reserves may be needed in subsequent years as current projections include the continuing decline of state revenue due to the uncertainty of the Community Colleges' share of Proposition 98, the under-funded growth rates, continuing property tax and enrollment fee shortfalls, uncertain prospect of tax increases, and the State's failure to yet identify a permanent solution to the overall statewide budget structural deficit, which could result in additional, subsequent year budget reductions.

## **Compliance**

Budgeted expenditures will reflect compliance with all existing collective bargaining agreements, external requirements, laws, including the Education Code, Title 5 regulations, Full Time Faculty Obligation Numbers, the 50% law, and financial accounting standards (such as GASB, including post retirement health benefit costs), etc.

## **Allocation**

The allocation of resources will be in accordance with the Budget Allocation Model approved by the Board in May 2007 and modified on March 10, 2009.

## **Timeline**

The Tentative Budget will be presented to the Board for approval in June 2012 with the Adoption Budget planned for presentation to the Board for approval in September 2012.