Monterey Peninsula College

Final Budget

Fiscal Year 2010-2011

Board Approval of
August 24, 2010

Monterey Peninsula College

Final Budget

2010-2011 Fiscal Year

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Introduction

The District maintains accounts in seven (7) major funds. The following is a summary indicating the projected beginning balances, 2010-11 budgets, and projected ending balances for each fund:

Funds	Beginning Fund Balance 7/1/2010	Budgets 2010-2011 Revenue	Budgets 2010-2011 Expense	Ending Fund Balance 6/30/2011
General				
Unrestricted	$4,264,428	$39,423,936	$39,419,605	$4,268,759
Restricted	$0	$5,494,907	$5,494,907	$0
Special Revenue				
Child Development - Unrestricted	$0	$533,856	$533,856	$0
Child Development - Restricted	$0	$250,632	$250,632	$0
Student Center	$199,444	$275,200	$260,235	$214,409
Parking	$63,928	$460,000	$431,749	$92,179
Total Operating Funds	**$4,527,800**	**$46,438,531**	**$46,390,984**	**$4,575,347**
Debt Service				
Student Center	$20,905	$19,425	$19,425	$20,905
Lease Payments	$103,491	$239,783	$239,783	$103,491
Capital Projects	$352,946	$342,741	$600,664	$95,023
Building	$72,793,221	$220,000	$66,341,480	$6,671,741
Self Insurance	$8,479,076	$7,163,249	$6,906,139	$8,736,186
Fiduciary				
Financial Aid	$12,881	$4,300,000	$4,300,000	$12,881
Associated Students	$90,600	$122,000	$122,000	$90,600
Scholarship and Loans	$272,948	$2,940,000	$2,940,000	$272,948
Trust Funds	$223,917	$590,000	$520,000	$293,917
Orr Scholarship	$47,624	$4,300	$15,000	$36,924
Total	**$86,925,409**	**$62,380,029**	**$128,395,475**	**$20,909,963**

Notes: Beginning Balance is prior to audit of 2009-2010 fiscal year end.
Ending Balance is calculated based on Beginning Balance and Budgets

Projections show positive beginning balances for all funds of the District, and revenues and expenses budgeted for the 2010-11 result in positive year end balances for all funds.

Significant portions of the District's operating budgets are dependent on funding from the state and the state does not yet have an approved budget. However, considering the economic issues facing the state, budgets proposed in the Governor's May Revise and the current Democratic legislative plan both recommend a very favorable budget for community colleges. The proposals include:

- 2.21% for growth, included in both proposals
- May Revise includes 0.39% negative cost of living allowance (COLA), Democratic plan rejects
- May Revise cuts $10 million from EOP&S and $10 million from part-time faculty compensation, Democratic plan rejects both
- May Revise increases $20 million for career technical education, Democratic plan rejects
- The Democratic plan also proposes:
    - Augmentation of $35 million to backfill 1-time federal ARRA funding
    - $25 million augmentation to support workforce training enrollments
    - JPA to borrow against for mandate reimbursements from the state

A final approved state budget is not anticipated until mid September and the District may need to approve revisions to this budget to accommodate differences. The District's Final Budget was constructed assuming income from the state would be basically the same as 2009-10 (i.e. no growth, no negative COLA, and EOP&S and part-time faculty compensation would not change).

Without a COLA, all increased costs for the District needed to be absorbed by cutting current budgets. In addition, the District is currently dealing with deferrals of state payments totaling $4 million and it is probable that the state will experience additional cash flow issues that will further negatively impact the District. The District maintains adequate reserves that should provide sufficient cash to continue operations without external borrowing; however, the deferrals do result in reduced interest income for the District.

The major financial issue facing the District this year is the projected 25% increase in costs for medical benefits. The District has been working with employee groups to implement cost containment measures to offset the increase. Agreements with the employee groups have been approved and this Final Budget projects expenses to be approximately the same as last year.

Institutional Goals

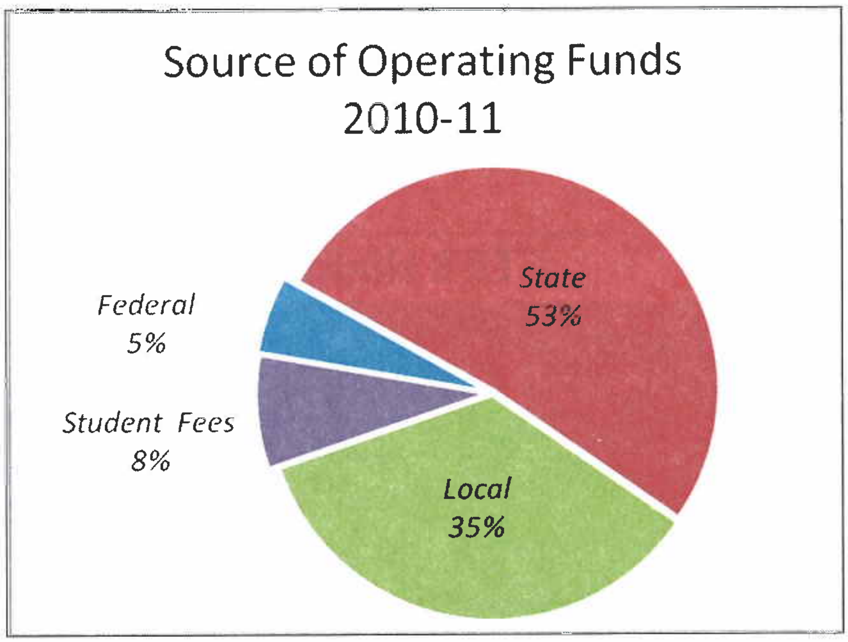
Progress on institutional goals this year that require additional resources continue to be made despite the difficult economic times and impact on District finances.

- Goal 3 to "grow enrollments and…teach employable skills." Adjunct budgets have been increased $253,931 to allow for additional class offerings.
- Goal 5 to "provide educational programs and services in Seaside and Marina…" Total FTES at the Ed Center was reported at 342 for the 2009-10 fiscal year and additional Class offerings are planned for the 2010-11 fiscal year.
- Goal 6 to "ensure adequate levels of personnel to support current programs…" The District has created 14 additional regular classified positions to support current programs and eliminated part-time temporary substitute positions in the same areas.
- Goal 7 to "maintain and improve District facilities." Facility projects being worked on in the 2010-11 fiscal year include: completion of new Student Services building and renovations of Auto Technology and Business Computer Science buildings, parking lots B and C, and bus stop, maintenance repairs to the Music building, addition of swing space village on campus, substantial completion of the Ed Center in Marina, and starting renovations on the pool and tennis courts, Gym, Theater, Humanities, and old Student Service buildings.

Long Term Outlook

Looking at major factors that affect community college budgets can provide an indication of a positive or negative outlook for the District. Major factors would include the economy in California, enrollments at MPC, employee compensation, and cost trends of expenses.

- Economy in California - 53% of the District's operating income is from the state, making the state budget a major factor in finances for the District.

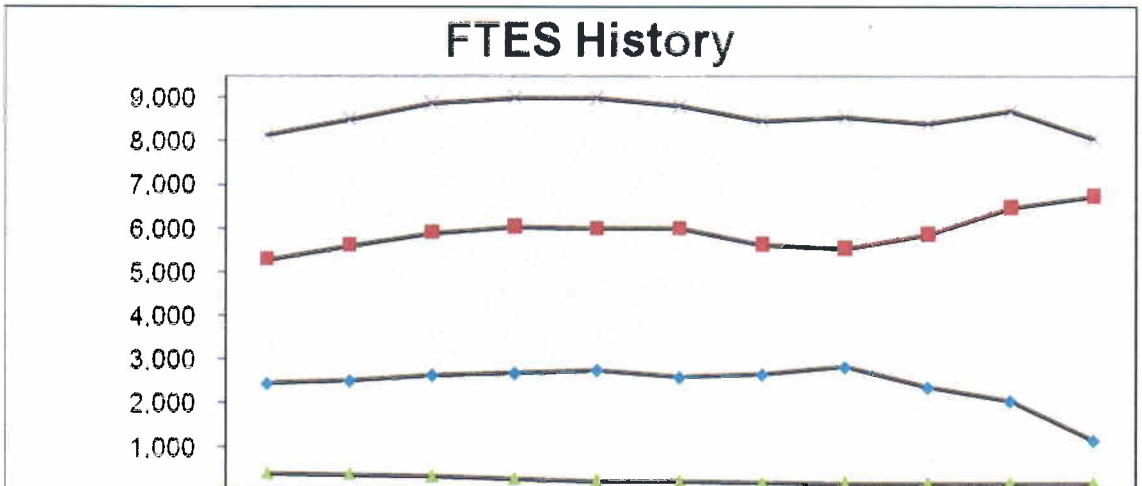


The state's fiscal year began on July 1, 2010, and the legislature failed to pass a budget by the deadline of June 15, 2010 and the state budget is now more than two months overdue. The state faces an estimated $19.1 billion deficit, after trimming billions of dollars from state spending last year and temporarily raising some taxes. On July 28, 2010, the governor declared a financial state of emergency and ordered furloughs for 150,000 state workers. Although legislative leaders are meeting, sides are very polarized and both Democratic and Republican legislators have mentioned the possibility of not reaching an agreement until the next governor takes office in January 2011.

The nation and California entered 2009 at the peak of the worst recession since the Great Depression. Monthly job losses were high, unemployment was increasing at an alarming rate, and national economic output was declining. The ranks of the unemployed increased from about 7.5 million to 14.7 million in the nation and from 1.1 million to more than 2.2 million in California during the recession. The Employment Development Department reports the state unemployment rate at 12.2% and Monterey County at 10.8% for June 2010. The recession that began in December 2007 hasn't officially been declared over, but most economists believe the recovery began in July 2009. Slow hiring continues to be the biggest hurdle facing the economy. Jobs must be created for the economy to recover and the outlook is a long and slow recovery.

- Enrollments at MPC – The four largest sources of revenue (apportionment, lottery, nonresident fees, part-time faculty compensation) totaling 99% of the Unrestricted General Fund are dependent on enrollments, both in-state and nonresident. The demand for classes has increased fueled by the downturn in the economy (unemployment), caps on enrollments at UC and CSU, and the increase in high school graduates (tidal wave 2).

  The state has not provided additional funding for enrollment growth for the past several years limiting the District's ability to offer additional classes. The District has been working to improve stability, increase efficiency, and maintain priority in basic skills, transfer, and career technical offerings. In 2007-08, an emphasis was put on increasing credit enrollments and decreasing dependence on noncredit instructional service agreements. This continues and the District reported its highest level of credit enrollments this past year. Although total enrollments have declined, Apportionment income continues to be maximized because of the higher rate of payment received for credit FTES.



Fiscal Year	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10
Noncredit	2458	2521	2652	2699	2770	2606	2668	2839	2370	2061	1155
Credit	5289	5608	5899	6033	5996	5993	5623	5540	5858	6474	6735
Nonres	384	373	318	270	229	206	181	167	165	168	163
Total FTES	8131	8501	8869	9002	8995	8805	8472	8547	8392	8704	8053

  The state continues to push colleges to prioritize courses that are of greater public interest to help in economic recovery and to deemphasize courses offered primarily to provide recreational or avocational pursuit. The District has some vulnerability here if changes were to be mandated.

  Although it is not probable to see any significant population growth in the District's service area in the near future, it is believed demand for classes will continue to outpace availability for at least the next few years because of high unemployment, caps on enrollments at UC and CSU, and tidal wave 2. As the economy and the job market improve, enrollments could be adversely affected in the future. Continued growth in core credit enrollments appears possible through improved retention and outreach, schedule improvements, and new and expanded programs.

- Employee compensation – District labor contracts tie increases in compensation to increases in apportionment income. Apportionment is the District's largest single source of revenue, making up 95% of the Unrestricted General Fund income (81.6% of the District's total Operating Fund income). Employee compensation includes salaries and fringe benefits and accounts for 83% of the District's Unrestricted General Fund expenses (80% of the District's total Operating Fund expenses). Although cost of benefits may increase at a different rate than apportionment income, the contract provision significantly helps keep future changes in revenues and expenses in balance.

- Cost trends for expenses – Costs for operating expenses are expected to continue to increase faster than inflation.

    - The District is self-insured for medical. Medical expenses nationwide continue to see double digit increases with no end in sight. A 25% increase in expenses was projected for the District's self funded medical including 12% for industry trend. The projected increase will hopefully be mitigated through a number of negotiated cost containment measures. Future cost containment measures will be needed to keep the District's medical below industry trends and avoid future double digit increases.
    - The District's practice of providing medical coverage continuation after retirement at District expense and accounting rules requiring the recording of the retiree medical liability (GASB 45) will continue to take a larger portion of the District's budget.
    - Costs for retirement plans are projected to increase significantly over the next several years. Required employer contribution rates to the Public Employee Retirement System (PERS) are scheduled to be increased from the current 10.707% to 14.507% by 2013-14. This 3.8% increase will mean an additional $356K in annual expenses. The State Teachers Retirement System (STRS) will need a 14% increase in contributions to make up a $22.5B shortfall. A 14% increase in the District's contribution would increase annual expenses $197K.
    - Costs for energy have seen significant swings both up and down. For the 2010-11 fiscal year, expenses are projected to be down because of very favorable electricity rates negotiated by the Leagues consortium and District's reduced utilization from conservation measures. However, rates are projected to increase beyond normal inflation in the future. The District should continue an aggressive campaign to implement additional conservation measures.
    - Other operating expenses projected to increase faster than COLA increases would include maintenance contracts, supplies, and equipment.

Conclusion

All funds are balanced and positive year-end balances (reserves) are projected. Minimal use of one-time solutions has been used to balance on-going budgets.

A state budget has not yet been approved and budgets in the operating funds of the District were constructed using the same state funding as received in the last fiscal year (2009-2010). Current discussions by the state legislature do not indicate any significant cuts to community colleges; however, the final budget approved by the state will likely alter some District assumptions which will require adjustments to the District's budgets. The state's budget problems will likely continue and will have a negative impact on future funding for the District.

Diligent planning in course offerings that will be fully supported by the state will be needed to enable the District to maintain stable enrollments and receive maximum apportionment funding from the state.

Revenue has been flat and expenses continue to increase because of inflation for the past several years. The District has been able to maintain balanced budgets through improved efficiencies and realignment of resources but at the cost of reduced service levels. Flat revenue and increasing expenses are likely to continue for at least the next several years and it will become more difficult to realign resources and further reduce programs and services. The need for future reductions is certain and planning for them needs to be done well in advance to allow programs sufficient time to accommodate changes.

Summaries by Fund

The District maintains accounts in seven (7) major funds. Revenue is budgeted by the source of the funding and expenses are budgeted by their function. The District's financial activities for day-to-day operating revenues and expenses are recorded in the General and Special Revenue Funds (aka Operating Funds).

General Fund

The General Fund includes the general operating budgets for the District. Some monies are restricted as to their use and the fund is therefore separated by unrestricted and restricted.

Unrestricted General Fund

The District's primary financial activities for day-to-day operating revenues and expenses occur in the Unrestricted General Fund (UGF). Amounts budgeted for revenue and expense in the Unrestricted General Fund show revenue to exceed expenses by $4,331 and an ending balance of $4,268,759 (10.8% of budgeted revenues).

The Final Budget indicates total UGF revenue is budgeted to decrease $248,236 (0.6%) from the current 2009-2010 Revised Budget. The largest single item accounting for the change is the projection of a reduction in budgeted interest income of $255,000.

Apportionment is the largest source of revenue and represents 95% of total unrestricted income. Apportionment is calculated by the State Chancellor's office based on in-state enrollments referred to as full time equivalent students (FTES) at the District. This Final Budget uses the same in-state FTES as the District projects to generate for 2009-2010 (7890). No new apportionment funds are budgeted for growth or a COLA. The four largest sources of revenue (apportionment, lottery, nonresident fees, part-time faculty compensation) total 99% of the Unrestricted General Fund are dependent on enrollments, both in-state and nonresident.