Monterey Peninsula College

Final Budget

Fiscal Year 2012-2013

Pending Board Approval of
August 22, 2012

Monterey Peninsula College

Final Budget

2012-2013 Fiscal Year

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Introduction

The Final Budget is the District's spending plan for the fiscal year 2012-13. The Final Budget is based on "budget assumptions" developed from the approved state budget, as well as input from the Chancellor's Office and the Community College League of California.

Following is a summary indicating the projected beginning balances (based on the current 2011-12 adjusted budgets), 2012-13 final budgets, and projected ending balances for all funds maintained by the District:

MPC 2012-2013 Final Budget

The following is a summary indicating the projected beginning balances, 2012-2013 budgets, and projected ending balances for all funds maintained by the District:

Funds	Beginning Fund Balance 7/1/2012	Budgets 2012-2013 Revenue	Budgets 2012-2013 Expense	Ending Fund Balance 6/30/2013
General				
Unrestricted	$3,814,300	$38,143,002	$38,143,002	$3,814,300
Restricted	$0	$5,224,845	$5,224,842	$3
Special Revenue				
Child Development - Unrestricted	$0	$397,970	$397,970	$0
Child Development - Restricted	$0	$174,130	$174,130	$0
Student Center	$214,409	$265,200	$265,200	$214,409
Parking	$92,179	$512,000	$481,028	$123,151
Debt Service				
Student Center	$20,905	$18,525	$18,525	$20,905
Lease Payments	$52,285	$275,324	$275,324	$52,285
Capital Projects	$980,493	$757,062	$1,654,811	$82,744
Building	$54,046,985	$200,000	$31,021,614	$23,225,371
Self Insurance	$8,736,186	$6,632,229	$8,050,809	$7,317,606
Fiduciary				
Financial Aid	$12,881	$5,500,000	$5,500,000	$12,881
Associated Students	$50,475	$90,274	$90,274	$50,475
Scholarship and Loans	$272,948	$2,500,000	$2,500,000	$272,948
Trust Funds	$293,917	$600,000	$600,000	$293,917
Orr Scholarship	$61,262	$50,000	$50,000	$61,262
Total	**$68,649,225**	**$61,340,561**	**$94,447,529**	**$35,542,257**

Notes: Beginning Balance is prior to audit of 2011-2012 fiscal year end.
Ending Balance is calculated based on Beginning Balance and Budgets

All funds are budgeted to have a positive ending fund balances. The unrestricted general fund maintains the Board established fund balance reserve of 10% of general fund expenditures. Proposed general fund revenues and expenses are balanced.

2012-13 Enacted State Budget *(excerpts from Chancellor's Office)*

For the second year in a row, the state enacted an on-time budget. For the second year in a row, the approved budget relies on midyear trigger cuts to make the plan financeable if revenues fail to meet estimates. While the 2011-12 budget included trigger cuts as a check against overly optimistic revenue assumptions, the 2012-13 budget relies on voter approval of a November ballot initiative to fund essentially a stay-the-course budget for public education. If the ballot initiative fails, the ax will primarily fall on education to keep expenditures aligned with revenues.

The approved budget (AB 1464) solves what was identified by the Administration as a $15.7 billion problem, as scored at the May Revision. To close the gap, the Budget Act enacts spending reductions totaling $8.1 billion, assumes approximately $6 billion in new revenues through voter approval of the ballot initiative, and $2.5 billion in other solutions (e.g., fund transfers, loan repayment delays, etc.). These solutions close the identified gap and provide for a reserve of $948 million. Assuming successful passage of the ballot initiative, state General Fund expenditures are estimated at $91.3 billion, which is about $4 billion more than the 2011-12 fiscal year but $11 billion lower than the 2007-08 fiscal year.

Taxes and Trigger Cuts

Once again, the Legislature and the Administration have returned to the trigger cut well. In order to avoid nearly $6 billion in painful midyear reductions (the vast majority in education), voters will have to approve the Governor's proposed tax increases at the November ballot. If approved, the Schools and Local Public Safety Protection Act would raise income taxes on high-income taxpayers for seven years and would raise the state sales tax by one-quarter percent for four years. It's estimated that the measure would raise about $6 billion in revenues for the 2012-13 fiscal year. If voters reject the initiative, the following reductions will be implemented as of January 1, 2013:

- $5.4 billion from Proposition 98 (more detail below).
- $250 million from UC.
- $250 million from CSU.
- $50 million from Developmental Services.
- $20 million from grants to Local Police Departments.
- $10 million from the Department of Forestry and Fire Protection.
- $17.6 million from various other programs, including flood protection, state parks, and the Department of Justice.

Education Highlights

Proposition 98 – For the 2012-13 fiscal year, K-14 Proposition 98 is funded at a total of $53.6 billion ($36.8 billion in General Fund). Successful passage of the November ballot initiative leads to an overall Prop 98 increase of $2.9 billion. This provides sufficient finding to keep levels of school funding relatively flat, pay down approximately $2.2 billion in deferrals, and fund the Quality Education Investment Act (QEIA) program within the minimum guarantee. The Department of Finance notes that successful passage of the ballot initiative would lead to a projected total growth of $17.2 billion over the next four years. While this would not represent dramatic growth, at least the K-14 would slowly begin to reverse years of harmful reductions.

K-12 – By and large, this is a stay-the-course budget for K-12. If the ballot initiative passes, the new funding will primarily go toward paying down deferrals (approximately $2.1 billion). The state budget also augments categorical funding for charter schools ($53.7 million) to reflect the growth in that population. The budget also assumes that the K-12 General Fund obligations will be offset by $1.3 billion in assets previously held by redevelopment agencies. A new mandates block grant would provide districts with $28 per unit of average daily attendance (ADA) in lieu of submitting reimbursement claims to the State Controller. If the ballot initiative fails, K-12 would experience programmatic reductions totaling approximately $4.8 billion. This would involve loss of the deferral buy-down funding and an additional cut to general purpose funding. Districts would be authorized to negotiate a reduction of up to 15 days from the calendar in the 2012-13 and 2013-14 fiscal years to achieve savings.

UC/CSU – The budget provides some new flexibility for both UC and CSU by eliminating some traditional set-asides and restrictions and by not identifying enrollment targets. A trailer bill agreement would also provide $125 million to each segment in the 2013-14 fiscal year if student fees are not raised in 2012-13. This deal is contingent upon successful passage of the ballot initiative. If the initiative fails, the UC and CSU systems would experience midyear reductions of $250 million each, and would not receive the $125 million payments in 2013-14 even if fees were held steady.

Cal Grants – The budget achieves savings in the Cal Grants program by restricting eligibility to institutions that 1) have a graduation rate of at least 30 percent and 2) have a cohort default rate no worse than 15.5 percent (these requirements will not apply to institutions – such as community colleges – in which fewer than 40 percent of students avail themselves of federal loans). Through a line-item veto, the Governor also imposed a 5 percent across-the-board reduction on maximum awards, so, for example, Cal Grant B access awards have been reduced from $1,551 to $1,473. Various additional restrictions and award reductions for students attending private, for-profit schools were approved that will begin to phase in the 2013-14 fiscal year.

California Community Colleges (CCC)

The major components of the 12-13 CCC budget are:

- No new reductions unless the November ballot fails.
- $50 million in growth funding to help restore some of the FTES lost in recent years.
- $159.9 million to buy down system deferrals.
- No change to categorical programs, as the Governor's consolidation proposal was rejected.
- No repeal of SB 361, as the Legislature also rejected the Governor's proposal to revise our general apportionment system.
- Approval of a new mandates block grant. Districts opting in to the block grant will receive $28 per FTES to cover compliance costs incurred during the 2012-13 fiscal year. Otherwise, districts may go through the normal claiming process for reimbursement at a

later date. Districts must make their selection known to the Chancellor's Office by September 30.

- Full hold harmless protection from any shortages in RDA-related revenues, both in the current year and budget year. This alleviates a major risk to CCC budgets, as shortages in these funds ($116 million in 2011-12 and $341 million in 2012-13) could otherwise have resulted in massive deficits.

As noted above, if the November initiative fails, K-14 education is slated for a trigger cut of nearly $5.4 billion. The CCCs would lose the $209.9 million in new funding approved in the budget ($50 million for growth/restoration and $159.9 million for deferral repayments) and would take an additional base cut of $338.6 million (nearly 7.5%). Similar to language included for base cuts made in the 2009 and 2011 Budget Acts, this base cut will be allocated as a workload reduction with legislative intent that community college districts will prioritize courses relating to transfer, career technical education, and basic skills.

A Year of Risk

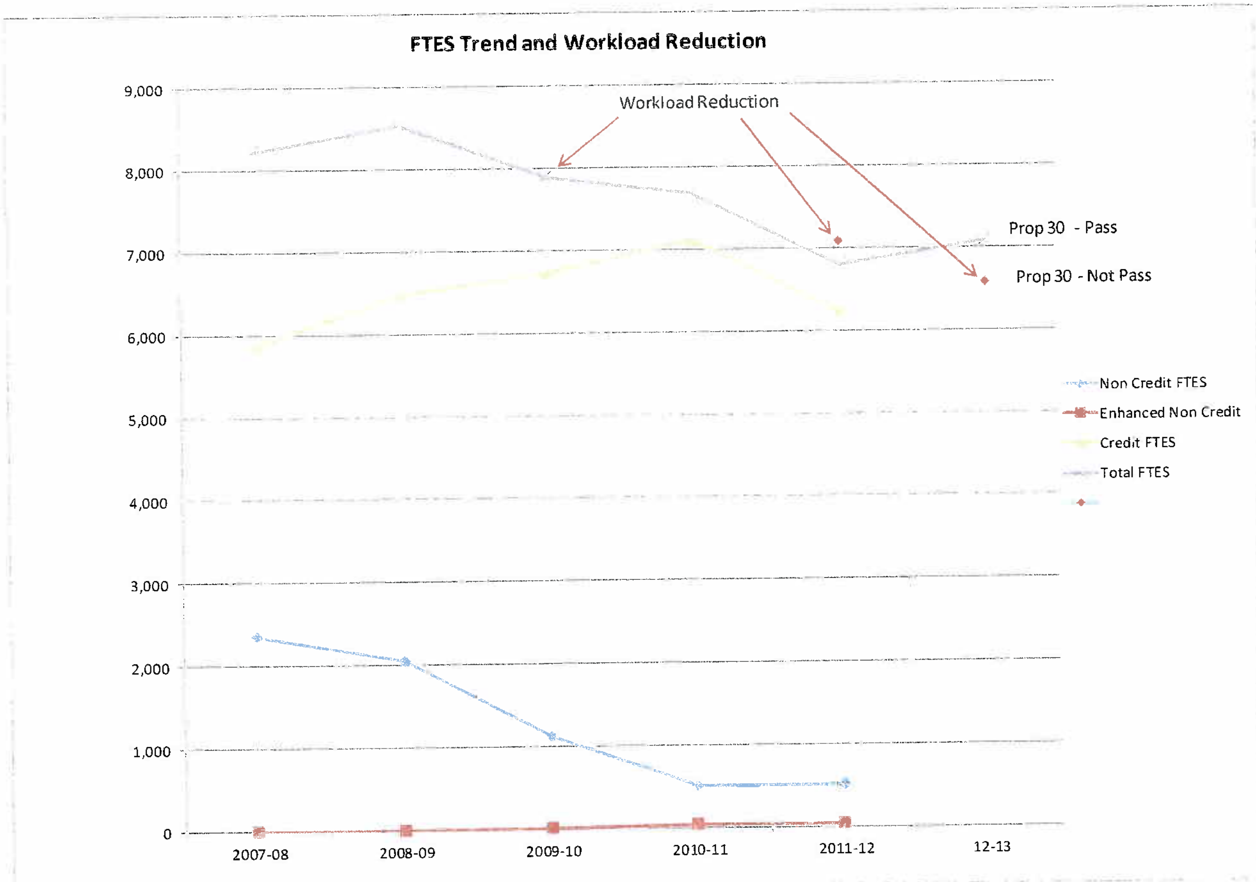
The state's economic recovery is slow and that fact is reflected in the 2012 Budget Act. All hope for avoiding funding reductions is reliant upon the will of the voters in November. The risk of midyear trigger cuts is certainly the system's most dire risk, but it is by no means the only one. While CCCs have statutory protection from redevelopment agency-related property tax shortages, any significant shortage would create a budget problem for the state that could result in additional CCC reductions. Troublingly, the state is pushing a major cash crunch onto the CCCs. CCCs will receive only about 40 percent of the General Fund cash through the first 5 months of the 2012-13 fiscal year as was received during the first 5 months of the 2011-12 fiscal year. Even if the ballot initiative passes, districts will receive about 40 percent of their annual General Fund money in June. This makes managing cash flow a difficult juggling act even under the best of circumstances.

FTES Trends and Stability Funding

Ninety percent (90%) of MPC's unrestricted general fund revenues are generated by Full Time Equivalent Students (FTES). FTES can be generated by credit, enhanced non-credit, and non-credit courses offered by the College. The state establishes the maximum apportionment revenue a district can earn in any given year. The district determines the mix of credit, enhanced non-credit and non-credit courses to maximize revenue up to the revenue cap. Should a district generate FTES that exceed their apportionment revenue, there will be unfunded FTES to that district. On the other hand, should a district not generate sufficient FTES to maximize their apportionment revenue, they will go on "stability funding". Districts which experience a FTES decline are held harmless for any revenue loss in the year the decline occurs, and the district is funded to its base enrollment. In the year immediately following the year of decline, the revenue associated with the FTES decline (stabilization funding) will be reduced from a district's base revenue if the district has not restored the enrollment. (Education Code Section 84750.5)

In 2011-12, MPC's apportionment cap was 7,095 FTES which generated $34,222,805 in revenue. The College reported 6,805 FTES on the Annual 320 report or 290 FTES below cap. As a result, the College has received approximately $1.39 million in stability funding in 2011-12. If the College does not earn back the 290 FTES in 2012-13, MPC's apportionment revenue will be reduced by a proportionate amount. MPC has three years to earn back stability funding: otherwise the funding is returned to the system and reallocated to districts with unfunded FTES.

In analyzing MPC's FTES trends, it is important to distinguish between declining FTES precipitated by state "workload reductions" and declining FTES resulting from other local conditions. The following chart shows FTES trends since 2007-08. Workload reductions were experienced in 2009-10 and 2011-12. The approved state budget for 2012-13 does have a trigger reduction equivalent to a 515 workload reduction for MPC if Propositon 30 is not approved by voters in November.



From the chart, one can clearly see that the Total FTES line in 2011-12 was below the "workload reduction" cap (as depicted by the diamond mark), thereby creating the stability funding for the College in 2012-13.

It should be the District's top priority to earn back the 290 FTES in 2012-13. This should be the case whether the trigger cut (workload reduction) is enacted or not in November. In the budget development for 2012-13, the College has taken steps to increase FTES production. These steps include increasing ISA contracts where it makes financial sense, increasing adjunct budget, focusing on increasing class size efficiency and student retention.

MPC Apportionment Estimate

In light of the uncertainties surrounding the November election, trigger cuts, deficit coefficient, and stability funding, estimates of apportionment revenue for 2012-13 could fluctuate significantly depending on outcomes beyond the control of the District. A number of these outcomes may not be known until mid-year or later.

The Final Budget for 2011-12 had estimated apportionment revenue at $34,672,438 on a worst case basis. This estimate did account for the Tier 1 and 2 trigger cuts in 2011-12, but did not anticipate the deficit coefficient attributable to BOG fee waivers or increases in other expenses. This additional mid-year surprise reduced apportionment revenue by $449,633. When added to the increase in expenses ($1,050,084) in 2011-12, the District transferred additional reserves and one-time funds totaling $1,499,717 to the unrestricted general fund to balance the budget for the year. Altogether, for FY 2011-12, the District used $2.6 million in reserves and one-time funds to close the budget deficit.

In analyzing the conditions surrounding the 2012-13 apportionment revenue estimate, even more unknowns are present including the potential for a large trigger cut, deficit coefficient, and possible stability funding. A preliminary estimate of worst case apportionment revenue for 2012-13 suggests a $2,287,810 reduction in apportionment revenues <u>without</u> any consideration of o a deficit coefficient or stability funding shortfall. Closing a deficit of this magnitude would require major program changes and or significant employee wage and benefit concessions.

Administration is recommending a more "measured" approach that would allow the District to adopt a budget while deferring decisions until more is known. Administration's estimate of apportionment revenue is based on a hybrid approach. That is, somewhere between "best case" and "worst case". Should Proposition 30 not pass, the district's apportionment revenue would be further reduced by $1,537,810 at a minimum.

The following chart shows the estimated apportionment revenue estimate using the hybrid approach.

	Budgeted 2011-12	Worst Case Actual 2011-12	Worst Case 2012-13	**Hybrid Est. 2012-13**
Apportionment	$34,672,438	$35,046,195	$35,046,195	**$35,046,195**
Trigger Cut - Workload Reduction	included	included	($2,287,810)	**??**
Deficit Coefficient - BOG Waivers	$0	($823,390)	??	**??**
Stability Funding	NA	NA	??	**Yes**
				($750,000)
Total Apportionment	$34,672,438	$34,222,805	$32,758,385	**$34,296,195**
		$34,672,438		$32,758,385
Shortfall in Revenue		($449,633)		($1,537,810)
Increase in expenses (ISA, CDC & Dept)		($1,050,084)		
Amount Needed Balance Budget in 2011-12		($1,499,717)		