Based on the latest information from the Governor’s budget proposal, the budget picture has improved somewhat for 2013-14 fiscal year. Unfortunately, the budget modeling for the subsequent two fiscal years 2014-15 and 2015-16 once again reflects operating deficits. These deficits are projected even with revenue assumptions that increase workload restoration/growth by 1.5% and COLA by 1%. To the extent revenues increase in workload revenue, they trigger an increase in instructional costs to generate required FTES and meet the compliance FON (Faculty obligation number). To the extent revenues increase due to a COLA adjustment the District will be able to partially offset the annual inflationary cost increases in health benefits, retiree benefits, step and column, operational and other obligations. However, the projected increases in cost will exceed the new revenues.

Positive Points -

1. No budget reductions in 2013-14 as previously planned due to the passage of Prop 30’s temporary tax revenue
2. For 2013-14, the District has received a guaranteed backfill from the state in the event that the Prop 30 tax revenue and RDA revenues do not materialize.
3. Governor’s proposal includes new ongoing revenues, but yet to be decided how it will be distributed
4. The District is implementing plans in 2013-14 to address to two major liabilities – Passport to College and OPEB (Other Post Employee Benefits)
5. The District is addressing one-time needs with one-time savings
6. Core services evaluation process will assist in prioritizing competing priorities and applying limited resources
7. Strong fund balance to temporarily help offset the exposure points below

Exposure Points –

1. Prop 30 revenues are temporary (4 years for sales tax and 7 years for income tax)
2. Uncertain if Prop 30 revenues with high-income earner volatile tax base will hold passed 2013-14
3. Uncertain if state will guarantee of Prop 30 revenues past 2013-14
4. Potential still exists for District to incur a revenue deficit should property taxes or student fees not materialize according to state projections
5. Built in increases for health benefits, retiree benefits, step and column, operational, and other obligations that are not covered with a corresponding COLA adjustment
6. FON catch up to projected 2013-14 level – Currently 202 to 215 faculty positions, and increasing as workload restoration/growth revenue increases
7. Return to the traditional growth model which may constrain growth revenue based on local growth rates and methodology
8. Unknown obligations for Student Success Act and likely future increase in District contribution to the underfunded CalSTRS pension plan
9. Unknown impact of changes in healthcare policy – Obamacare
10. Fragile state of the California and US economy

Rationale for Approach –

A measured and cautionary approach is warranted as the District proceeds in planning and allocating its very limited resources among competing priorities to address pent up demand. It needs to be prudent and careful to not over commit resources, and first address those areas of high institutional value that are most central to the overall institutional core and mission.