To: Dr. Kathy Hart, Superintendent/President  
From: Raquel Puentes-Griffith, Controller  
Re: Update on RDA Shortfall and District Impact in 2013-14

**Executive Summary**  
On September 26, 2013, the State Chancellor’s Office (CCCCO) announced an impending RDA shortfall for 2013-14. The range of the deficit and impact is estimated at .75% to 2.2%. Those figures translate to approximately $500k to $1.6 million one-time revenue shortfall for the District. The RDA revenue shortfall, coupled with the reported faculty hourly budget augmentation needed to hedge the FTES decline, may cause an operating deficit in 2013-14 ranging from an estimated $1.5 million to $3.1 million. The administration anticipates that vacant positions and operational savings will offset the impact. We will continue to monitor the state revenues, and report updated projections during the quarterly financial reports. The CCCCO expects to have updated figures in December 2013 when the counties report tax revenues and February 2014 when the P1 Report is issued. However, the exact impact on District operating results and the reserves will not be known until the end of the fiscal year.

**Background**  
The state took action in February 2012 to eliminate redevelopment agencies (RDAs) but had to address the tax revenues associated with those agencies during the winding down process. For 2012-13, the Department of Finance (DOF) built in a level of RDA property taxes into the community college system (System) budget. There was great concern that the estimates were short and that community colleges would be adversely impacted.

In an effort to mitigate that concern, an agreement was proposed whereby the System was to be made whole for any shortfall in this revenue source as determined by the DOF. On June 13, 2012, the CCCCO announced that an agreement was reached between the Legislature and the DOF. The legislation was passed concurrently with the 2012-13 Budget Act. It pledged to hold the CCC System harmless in both the current year and budget year for any RDA shortfall.

As the 2012-13 year drew to a close, there was debate between the CCCCO and the DOF about the true shortfall in RDA revenues. The difference was due to reporting from the newly formed Oversight RDA Agencies, coordination of information with the counties, timing differences, and
the initial DOF projections. However, the System was still assured that it was a matter of resolving the data, the timing differences, and other items to “true up” the figures reported by the county tax collectors around the state, and the projections coming out of the DOF against the information gathered by the CCCCO.

Given the explicit agreement to make the System whole, the considerable variance on the estimates and the statement that it was a matter of reconciling the reports, the administration determined it should not anticipate a deficit in revenues for 2012-13. Further, the indications that state revenues were exceeding expectations suggested that the state would have sufficient resources to make the System whole, if not because of the explicit RDA agreement, then through the impact on Prop 98 for the additional revenues.

The administration did not have sufficient information on which to record a deficit, and did not want to take an overly aggressive position by making such an assumption. Based on the agreement to hold the System harmless and projections regarding state revenues, the administration decided that projecting full RDA backfill was not a significant exposure. Additionally, this position would be reasonable to adopt because the District had a sound fund balance and a balanced budget structure for 2013-14.

Prior year adjustments are a regular occurrence at the first period apportionment report from the state in the new fiscal year. In February 2013, the District was notified by the CCCCO in the P1 report that it was to receive $303,000 more for the 2011-12 fiscal year. This adjustment was a result of actions beyond the District’s control, stemming from either other college districts not reaching their FTES targets or property tax and student fees statewide coming in better than expected.

By late summer of 2013, it was apparent that the DOF was viewing the RDA guarantee and defining backfill differently than the CCCCO. As a result, the administration received notice that there may be a shortfall in RDA tax revenues. The range of the shortfall was not very precise because of the uncertainty about the data sources. Therefore, the estimate provided was less than precise, and said to be anywhere from .75% to 2.4% (per CCCCO). Given the extensive range of the shortfall, it was very difficult to estimate and include within the major budget assumptions. The District’s 2012-13 Year-End Financial report on 8/27/13 and the 2013-14 Adopted Budget presentation on 9/10/13 to the Board of Trustees outlined the risks and exposure from the possible RDA revenue shortfall.

**Status**
On September 26, 2013, Dan Troy, CCCCO Vice Chancellor of Fiscal Policy, issued a statement regarding this issue. Unfortunately, he stated that the DOF believes they have provided all required backfill, at this time, based on their assumptions. There is clearly a difference of understanding and expectation between the CCCCO and the DOF about the backfill definition in the legislation. The data sources and shortfall range being provided to the System continue to have striking variances, even with updated information and with the assistance of consultants to reconcile the figures. The new range provide from the CCCCO of the RDA shortfall is .75% to 2.2%. Further reconciliation will take place in December 2013 when the counties submit their property tax reports. The District will receive updated figures during that time. The final 2012-
13 one-time deficit due to the RDA shortfall, along with any 2013-14 estimated revenue shortfall, will both be received in February 2014 when P1 is reported.

**Impact**

**Assessment of the 2013-14 RDA Estimated Impact**
- The District may experience a one-time revenue loss ranging from an estimated $500k up to $1.6 million based on the CCCCO deficit percentage range provided 9/26/13.

**Other Anticipated Operational Developments Affecting the 2013-14 Budget**
- Faculty hourly augmentation of $1 million to $1.5 million is needed to meet the FTES targets as outlined during the 2013-14 Adopted Budget presentation on 9/10/13.
- Budgetary savings from yet-to-be-filled vacancies and other potential operational budget savings will help mitigate a shortfall.

**Estimated Operating Results and Fund Balance**
- The current balanced budget position will be replaced with an operating deficit ranging from an estimated $1.5 million to $3.1 million.
- Fund balance will decline from a projected $10.3 million down to an estimated $8.8 million best case or estimated $7.2 million worst case scenario.

The final outcome in operating results and ending fund balance will depend on the actual RDA shortfall, faculty hourly needs, and one-time budgetary savings from vacancies and other operational lines in 2013-14. Updated projections will be provided during the quarterly financial reports during the fiscal year.

**Final Considerations**
- It is the intent of the state Chancellor’s Office to enact stronger guarantee language for the 2014-15 fiscal year.
- There still is a chance that an increase in Prop 98 funding could occur and provide some one-time revenue offset.

The rapid onset of the RDA shortfall and the enrollment decline, along with the financial implications of both are examples of why a strong fund balance is a necessity. If not for the reserves, the District would be faced with a more dire circumstance. While the District will be able to weather this impending hit in the short run, the fiscal stability of the District must be protected during this fragile time of state funding volatility and rebuilding. The District should very carefully consider requests for increases to ongoing expenditures and significant one-time unrestricted general fund expenditures. A conservative approach on decisions that would deviate from normal operations is clearly required to avoid further risk and exposure.