Budget Planning in 2020-2021

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Projection for 2020-21 Stability Fund

Current Budget Status – as of 3/31/2020

Balances Ending 2019-20

- Ending Balances
  - Stability fund
  - Reserve
  - Colleges/Central Services Carry Forward
  - Other: Supplementary Retirement Plan (SRP), Encumbrances

Projected Revenue vs. Projected Expenses	
Beginning Balance, July 1, 2019	**$ 33,405,207**
Revenue	$ 197,808,791
Expenses and Transfers Out	(194,357,018)
Net Change in Fund Balance (Projected)	**$ 3,451,773**
Projected Net Fund Balance, June 30, 2020	**$ 36,856,981**

Projected Fund Balance Allocation	**$ 36,856,981**
Less: "B" Budget Carryforwards (Designated)	
Foothill "B"	$ (4,800,000)
De Anza "B"	(1,800,000)
Central Services "B"	(1,400,000)
	$ (8,000,000)
Less: Districtwide "A" Carryforwards (Restricted)	$ (191,000)
Less: Encumbrance Carryforwards (Designated)	$ (1,700,000)
Less: Supplemental Retirement Plan (Designated)	$ (2,025,000)
Less: Adopted Budget Reserves @ 5% (Restricted)	$ (9,717,851)
Projected 2020-21 Stability Fund	**$ 15,223,130**

Navigating 2020-21

Revenue Risks 2020-21

- Reduced Tax Revenue for State
- Potential 8% drop in base funding ($156.9M for 2019-20)
- Deficit Factor from 2019-20
  - $1.56M per each 1%
- Lost Income: Parking, Dining Services, CDC, Bookstores, Rentals
- Non-resident Income
- Lottery, Local Revenue
  - Property taxes could increase or decrease in the future
- Hold Harmless – extended two additional years, but needs to be funded
- Categorical Funds – what types of reduction?

Expense Impacts 2020-21

- COVID-19 Preventative Measures: Sanitation, Cleaning, Fixture Changes
- COLA, Step Increases, PGA/ Longevity Awards,
- Classification Studies – ACE/ Confidential, AMA
- Mandatory pension increases versus proposed STRS/PERS savings
- Health Care Costs
- Supplementary Retirement Plan (SRP) savings due to methodology
- STRS/PERS proposed savings

Navigating 2020-21

What About…Basic Aid Status?

(State Apportionment < Local Property Taxes and Student Fees)

State Apportionment = <u>$156.9M</u>

- Shrinking down towards Basic Aid – loss of FTES
- Further FTES Loss or Cuts of $11.7M to reach Basic Aid status

Local Property Tax + Fees = <u>$145.2M</u>

- Local property tax would need to increase by $11.7M in Taxes/Fees to match 2019-20 state apportionment revenue
- 2, 3, or ? years before Prop Taxes/ Fees would catch up
  - Assuming that property tax values and student enrollment stay stable or increase

- **Does not account for Non-Resident Income Loss**
  - **Current Income = $26M**
  - **50% Loss = $13M**

Basic Aid Considerations

- The District is shrinking down to Basic Aid
  - Will still have reductions to deal with
  - Might take several years to reach current revenue levels
- Generally counties experience a lag of one year before effects of assessed value reductions are experienced
  - FY 2020-21 forecasted as small increase but FY 2021-22 might show effects of current economic crisis if conditions change
- Trailer bill language proposes reducing categoricals by the same amount as their total computational revenue (TCR)
  - Essentially same deficit as if they were on apportionment
  - How to backfill categoricals?
    - Which grants would be affected?
    - 50% law effect since most are student support services and not instructional?

Budget Summary

- $11.7M Revenue Decline – Stop Gap to Basic Aid Status
  - Stops the downward spiral for state funding, but there will still be revenue reductions
  - Variability in property tax revenue
- $XXM – Loss of Non-Resident Income
  - Overall effect unknown at this time
  - Potential effect on cash flow
- Categorical Funding
  - Some isolated cuts at this point
    - Strong Workforce Program
    - Student Equity and Achievement (SEA) Program
    - Proposed new “Consolidated Program”
  - Potential for more cuts if Basic Aid status is attained
- Local Self-Sustaining and Enterprise Programs not able to generate revenue
- Changes to expenses: COLA, step, pension, SRP, STRS/PERS
- Classification study costs
- COVID-19 accommodations

- Stability Fund = $15.2M

Anticipated Revenue Scenarios Updated with May Revise Assumptions

(does not include expense changes – so does not show total fiscal impact)

		Best			Middle			Worst		
	Major Sources Current Revenue (in millions)	% Change	$ (Loss) / Gain	2020-21 Projected Revenue (No STRS OnBehalf)	% Change	$ (Loss) / Gain	2020-21 Projected Revenue (No STRS OnBehalf)	% Change	$ (Loss) / Gain	2020-21 Projected Revenue (No STRS OnBehalf)
State Apportionment*	$156.90	-7%	$(11.14)	$145.76	-7%	$(11.14)	$145.76	-11%	$(15.71)	$130.05
Nonresident	26.00	-30%	(7.80)	18.20	-40%	(10.40)	15.60	-60%	(15.60)	10.40
Lottery	4.20	6%	0.26	4.46	0%	-	4.20	-20%	(0.84)	3.36
Other Revenue	7.20	-25%	(1.81)	5.39	-25%	(1.80)	5.40	-25%	(1.80)	5.40
EPA/FTFH	-	0%	-	3.40	0%	-	3.40	0%	-	3.40
Total Revenue	**$194.30**	**-11%**	**$(20.50)**	**$177.20**	**-12%**	**$(23.34)**	**$174.36**	**-17%**	**$(33.95)**	**$152.61**
Various Programs - w/ Ongoing Costs	$13.69	-11%	$(1.50)	$12.19	-11%	$(1.50)	$12.19	-11%	$(1.50)	$12.19
Student Equity and Achievement	10.20	-15%	(1.53)	$8.67	-15%	(1.53)	$8.67	-15%	(1.53)	$8.67
Strong Workforce	2.50	-55%	(1.38)	$1.13	-55%	(1.38)	$1.13	-55%	(1.38)	$1.13
	$26.39	**-17%**	**$(4.41)**	**$21.98**	**-17%**	**$(4.41)**	**$21.98**	**-17%**	**$(4.41)**	**$21.98**
Total Potential			**$(24.91)**			**$(27.75)**			**$(38.36)**	

*Assumes : Best and Middle Case, loss of hold-harmless to attain Basic Aid status and flat Enrollment & Property Taxes
Worst Case, under Basic Aid, a 3% decline of Enrollment Fees & Property Taxes

Expenses - Finally some good news!

- Due to various factors, FY 2020-21 General Fund expenses year-over-year appear to be coming in only $2 million higher than FY19/20 Adopted.
  - SRP methodology was interpreted in such a way that $2.1 million was budgeted both in SRP and backfill as part of ongoing costs.
  - SRP retiree benefit cost used for original calculation was higher than the amount used in the most recent in actuarial study.
  - Refined SRP methodology and will continue to review as move through the process.
  - Large number of vacant classified SRP positions in FY19/20 provided additional savings. As a result FY 2020-21 classified positions were budgeted at actual new hire rate versus the higher retiree rate.
  - Proposed May revision STRS/PERS savings for the next two years.

- Using “Best” case for revenue under the May Revise conditions resulting in forecasted FY 2020-21 deficit of approximately ($7,000,000)
  - Many, many uncertainties…including non-resident revenue going up or down
  - Legislature may change state budget
  - August revision

Estimated Deficit for “Best” Case Revenue and Estimated Expense Scenario

	Amount	
Estimated Tentative Budget Deficit	(7,000,000)	
Reclassification Studies	(3,500,000)	
Estimated ongoing loss	**(10,500,000)**	
Categorical Reduction	(4,000,000)	Carry forwards may absorb initial loss
COVID-19 Expenses	(500,000)	FEMA Reimbursement possible, only at 75%
Non-Resident	?	Best case is 30%, actual TBD
First year potential loss	(15,000,000)	+

Historical Budget Reduction Approach

Assigning costs based on percent of expenses at each campus and Central Services

- Last time with the $17.6 million reduction target, the split was:
  - 50% – De Anza
  - 35% – Foothill
  - 15% – Central Services
- Under a potential $10.5 or $15.0 million reduction, these equivalent targets would be:
  - $5.25 or $7.5 million De Anza
  - $3.675 or $5.25 million Foothill
  - $1.575 or $2.25 million Central Services
- Where would these cuts come from?

Assigning Total Available Budget to Campuses and Central Services

For demonstration purpose only. The Adopted Budget did not include the 6% COLA implemented in FY 2019-20

Anticipated Budget Reduction **$15,000,000**

	Foothill College	De Anza College	Central Services	District-Wide	Total
Salaries	38,218,152	55,238,668	17,712,113	582,990	111,751,923
Benefits	10,427,342	15,315,240	7,605,821	13,486,127	46,834,530
Materials & Supplies	1,064,630	716,692	1,777,834		3,559,156
Operating	1,569,554	453,626	2,362,273	12,439,888	16,825,341
Capital Outlay	227,000	10,115	170,278		407,393
Total Budget	**51,506,678**	**71,734,341**	**29,628,319**	**26,509,005**	**179,378,343**
Transfers	(500,000)			7,510,543	7,010,543
Total	**51,006,678**	**71,734,341**	**29,628,319**	**34,019,548**	**186,388,886**
Percent in Personnel/Benefits	**95%**	**98%**	**85%**	**41%**	**85%**

- Where do the reductions get applied?

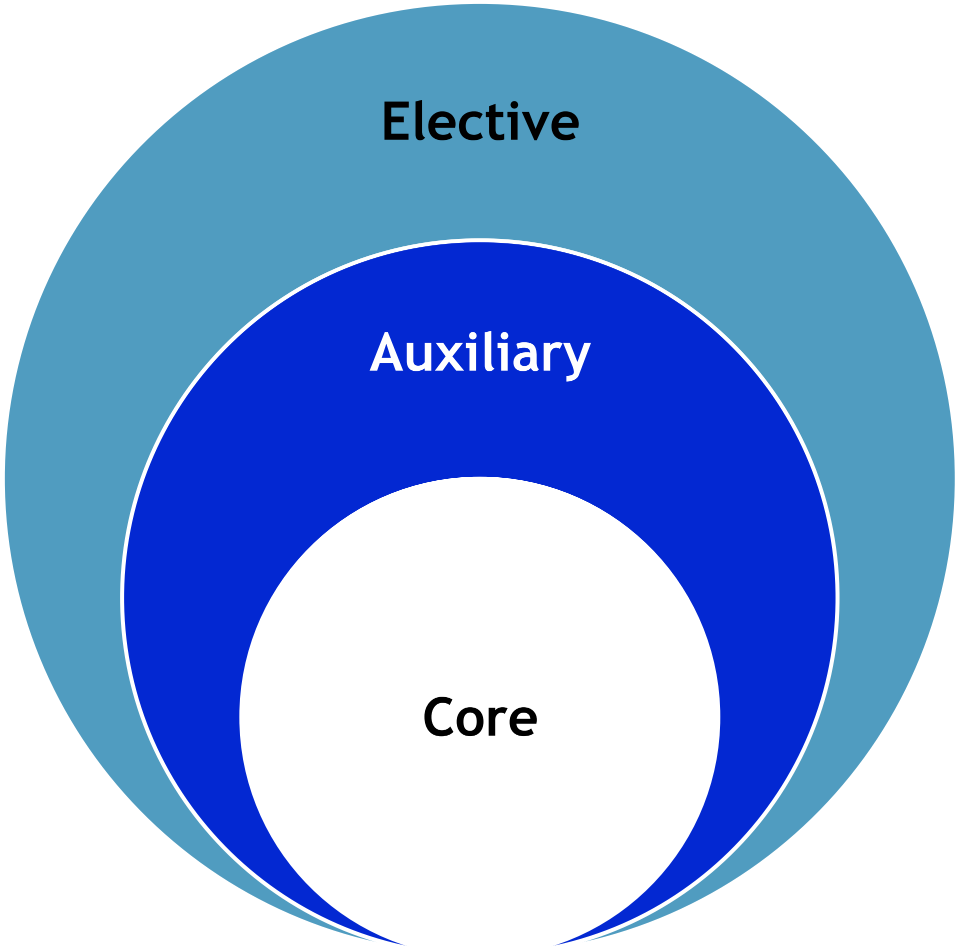
Historical Budget Reduction Approach

Prior approaches are unlikely to work this time.

- May cut too deeply into support and other core services
- May prevent the district from meeting its legal obligations
- May increase liability (and thereby costs) going forward
- May incorrectly assume we can reduce operational infrastructure (power, water, insurance, community service obligations, …)
- May unduly impact operational services affecting payroll, sanitation, purchasing, technology, maintenance…
- …

Maybe a New Approach should be considered…

Perspectives to Consider in Planning



Maybe a New Approach Should be Considered

Build from the Core

Core Programs and Services First

Core: Tier 1

- What programs and services are the highest priorities?
  - What criteria do we use to assess the highest priorities? What must we retain and why?
  - What is the cost for these and what is left?
  - Test Assumptions and Outcomes

Auxiliary: Tier 2

- What is next to further support our Core Competencies?
  - Do the same assessment criteria apply? What do we retain and why?
  - What is the cost for these and what is left?
  - Test Assumptions and Outcomes

Elective: Tier 3

- What is elective that can be added if funds remain?
  - Assessment criteria? What comes back in first and why?
  - What is the cost for these and what is left?
  - Test Assumptions and Outcomes

QUESTIONS?