RIVERSIDE COMMUNITY COLLEGE DISTRICT
District Budget Advisory Council
October 28, 2011
Digital Library, Room 409
9:00 - 11:00 a.m.

AGENDA

I. Welcome and Call to Order

II. 2016 Financial Forecast

III. Next Meeting
   • December ___ 2011 (?)

IV. Adjournment
I. Meeting was called to order

II. State Budget Update

Dr. Buysse gave an update on the status of State budget issues:

- The Chancellor’s Office posted a new Student Success report on the Student Success Task Force website (Dr. Buysse to forward link to group). Potential issues that may arise:
  - Some unions are against the proposal
  - Many recommendations are on the wrong side of the 50% law
  - Performance based funding
  - Likely to be a hot topic

- Base Funding - System wide re-benching for downward FTES slide
  - Changing standards (student success)
  - Program funding formula
  - Increased enrollment fee
III. **2016 Financial Forecast**

Dr. Buysse presented a report regarding RCCD’s 2016 Financial Forecast at the Management Retreat on October 14, 2011 (see handout).

**“Conundrum”**

- Funded FTES must be maintained
- Funded FTES, grants and measure C must be supported by a decreasing core of non-teaching support that has been stretched thin
- Our fiduciary responsibility for maintaining capital assets is now becoming a concern.
- IT refresh funding and the pace of technological change is a question. The Audit will yield improvement, but then what?
- 3 college district - we have increased overhead -50% law.
- Mission assaults.
- Rising enrollment fee.
- State budget crises and the Great Recession -When will they end, 3 years? 6 years? 9 years? Or ___ years?

2016 Budget Scenarios Examples

- Status Quo
- State Assisted
- State Assisted +
- Major Restructuring

V. **Next Meeting**

Agenda Items: Last year survey and BAM assessment
December 9, 2011 - 9:00 a.m. to 11:00 a.m. (Alumni House Living Room)
2016 FINANCIAL FORECAST

THE FORECAST

CLOUDY

Good chance of rain perhaps mixed with hail

Severe Thunderstorms in some areas

Strong winds and tornadoes are a distinct possibility
But

That’s Okay

You won’t notice

because of the earthquakes and tsunamis
Note: Please be advised that the numbers herein as they pertain to RCCD are estimates, as we have not yet received anything from the State relative to district-by-district allocations. It is possible that we will not receive this information until as late as August 17 when a budget workshop is scheduled.

Overview of the State Budget:
- $11.1 billion in expenditure reductions
- $11.8 billion in baseline revenue adjustments (remember, this is without tax extensions, so pray that the stock market remains in good order, because without capital gains taxes, the State budget is toast)
- $2.9 billion in borrowing, shifts and fund transfers
- $1.0 billion in new revenue changes (e.g., new and extended fees, revenue collections)
- $0.5 billion in local realignment revenue impacts
- Note: $1.7 billion in solutions is associated with redevelopment, and this "solution" may be tested in court.
- If all this works, the State still has a $3.0 billion shortfall looking into FY 2012-13.

The CCC Budget:
- The "new" revenues are a plus for Prop 98, though there is concern as to whether they will in fact be realized (see note above)
- If not, we have a set of ticking time bombs, aka Tiers 0, 1 and 2
- Tier 0...no midyear cuts if at least $3 billion of the $4 billion of new revenues materialize (Why $4 billion and not $11.8 you might ask? Because the $4 billion is what they needed to add to get a balanced budget when they ran out of time. So, about 15% of the overall State budget problem was solved by adding this sum to revenues at the proverbial 11th hour. It would seem they didn’t even believe it themselves or they wouldn’t have created tiers.
- Tier 1...If only $2.0-3.0 billion is realized, there will be a $30 million hit to the CCC, but this will supposedly be offset by a mid-year 28% increase in the enrollment fee. If past experience is any guide, this will be end up being a deficit factor (i.e. budget cut). For RCCD, it would amount to some $600-750K. (Note: There will be an attempt by the CCC to mitigate the implementation of this fee, but success here is problematic.)
Tier 2...If there is less than $2.0 billion realized, then the CCC would take a hit of "up to" (a sliding scale) $72 million. Our share would be in the range of $1.44-1.80 million, on top of the Tier 1 hit.

Overall, the CCC takes a hit of $400 million, exclusive of Tiers, in base apportionments.

$110 million of this reduction is offset by $110 million in increased enrollment fee revenue derived from the $10 per unit fee increase.

The net impact of these two items is a $290 million reduction for the CCC, a drop of about 4.9% which would yield a workload reduction (i.e. funded FTES) of the same percentage.

However, there is also an apparent $25 million overestimation of enrollment fee revenue for 2011-12, so the CCC could be on the hook for another reduction. For RCCD, this would be another hit of $500-625K. Our hope here is that property tax revenues come in above projection to offset some or all of this shortfall.

There is no funding for growth or COLA.

Categorical funding flexibility is extended through the 2014-15 fiscal year. (Isn't it interesting that they jump out fours years on this one. Is that some kind of subliminal message?)

The word on P2 for FY 2010-11 is that our growth allocation is reduced by about $300K. If so, there's a $600K impact on our projections, the '10-11 impact plus the fact that it carries forward in our base.

State apportionment is about $900K less than projected.

Tiers 1 and 2 and the above-referenced enrollment fee shortfall loom heavily on the horizon.

The bottom line is that it would appear that the golden handshake, which was implemented as a strategy to mitigate our projected $10-15 million budget problem in FY 2012-13, may in fact be exhausted by the State's 2011-12 budget. Further, if all this transpires, the '12-13 problem will have deepened beyond projections.
The 1980s
Colorado Nirvana
Oil Shale

Black Sunday
Legacies of a Failed Policy

And then, on May 2, 1982 – a day known on the Western Slope as “Black Sunday” – everything came to a catastrophic halt. Reckoning with falling oil prices that made oil shale no longer profitable, Exxon’s board of directors announced that they would pull the plug on the Colony Project, effective immediately. The evening news delivered the first word most people in Colorado heard about it. Overnight the 2100 people employed on the project became unemployed, locked out and not even allowed to retrieve their personal effects when they showed up at the job site the next morning. The impact shot through the entire region, leaving everyone from construction workers to bus drivers to area business owners to appraise what a post-shale future might hold for them.

Other energy companies followed Exxon out of town, and approximately $85 million in annual payroll disappeared from the regional economy in just a few years. Many folks read the writing on the wall and didn’t wait around to see what an $85 million vanishing act looked like, quickly deciding that there was no future for them on the Western Slope without the oil shale industry. Within a week of Black Sunday, a thousand people had left Garfield County. There were no more trucks or trailers left to rent.
Legacies of a Failed Policy

The exodus continued as nearly 24,000 made their way out of Garfield and Mesa counties between 1983 and 1985—diminishing the region’s population to less than it had been before the boom—while unemployment on the Western Slope climbed from near zero to 9.5%. Young people departed in search of the wages and opportunities to which they had grown accustomed. Vacancy rates, once nonexistent, topped 14% in Grand Junction, and foreclosures in Mesa County increased from 98 in 1980 to over 1600 in 1985. Office buildings sat vacant. Businesses folded by the score. Banks that had survived the Depression now went under.

Although a few companies did stick it out—Unocal and Occidental maintained their operations at limited capacity until the early 1990s, and several other companies, including Shell, continued research and development work on private sites—they were no enough to stem the tide of economic disaster. The oil shale bust triggered a regionwide financial collapse on a scale not seen even in most Midwestern steel towns.

Black Sunday (continued)

Legacies of a Failed Policy

The first boom failed for lack of capital and inadequate technology, but the second failed primarily due to poorly considered policy. Although there was still no technological breakthrough that made oil shale development profitable, the federal government (with president Carter leading the way) engineered a boom in reaction to the perceived crisis of high oil prices and unstable suppliers. Energy companies followed the government’s lead, responding to government incentives with major investments of their own. Oil money and federal subsidies pumped unprecedented amounts of capital into Shale Country during the 1970s and ’80s, but it was not enough to purchase the necessary technological innovation (nor was it clear that such a breakthrough was available for purchase at any price). When oil prices normalized again, neither the government nor private industry could continue to justify unstained investment. Taxpayers and energy companies had spent untold billions with negligible returns, but the residents of the Western Slope bore the brunt of the failed policy’s cost.
That started May 2, 1982

- October 1982
- December 1982...and then '84
- Governor Gloom and Dr. Doom
- The GRIND
- Enrollment Decline...and Negative Marketing
- A Quiet Revolution
- 1997
- 2007 Prophecy

- Then there was 1989
- Another Prophecy
- An '80s Nirvana
- Case Study: Institutional Preparedness or the lack thereof
- 1992 and Preparedness Redux
- Then Boom
- And what a ride it’s been
But was it real?

Or in the words of the Moody Blues, “...was it simply an illusion?”

The Stock Market Bubble

2001 POP!

The Housing Bubble

2006 Clouds Appear

2008 POP!

THINK FALL 2008

• A BREATHTAKING FALL

2009 Forecast

Is this time different?

Vanity Fair
• You’re in an airplane
• You’re going to crash
• Will you manage the crash and land safely?
  or
• Will you simply crash and burn?
  AND
• Even if you land safely,
  - Will there be casualties?
  - When will the skid down the landing strip stop and how bumpy will the skid be?

FY 2012-13
How big is the problem we confront?
What about 2013-14?
How long will it last?
• No magic number
• The situation is fluid and seems to defy planning
• And it’s not just next year!

PRELIMINARY HOLE/WHOLE ANALYSIS

What we confront looks something like this:

One-Time Fixes, 2011-12
Interfund Borrowing
Restoring Reserves
Management Furloughs
Positive Budget Variance
Hiring Freeze
Hourly Staffing
Nursing/Science
Size of the Hole
Plus 2012-13 Problem
Total Restoration
# Some Key Numbers

## Community College Financial Projection Dartboard
2011-12 May Revision Version

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Statutory COLA for Apportionments</td>
<td>-0.39%</td>
<td>2.24%</td>
<td>3.20%</td>
<td>2.70%</td>
<td>2.90%</td>
<td>3.10%</td>
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<tr>
<td>Funded COLA</td>
<td>0%</td>
<td>0.00%</td>
<td>3.20%</td>
<td>2.70%</td>
<td>2.90%</td>
<td>3.10%</td>
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<tr>
<td>Growth Funding</td>
<td>2.2%</td>
<td>0.00%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
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<tr>
<td>Workload Reduction¹</td>
<td>-3.34%</td>
<td>-5%</td>
<td>Total 8.34%</td>
<td>Ongoing</td>
<td>Ongoing</td>
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<td>&quot;Protected&quot; State Categorical Programs²</td>
<td>Ongoing</td>
<td>Ongoing</td>
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<td>Ongoing</td>
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<tr>
<td>&quot;Unprotected&quot; State Categorical Programs³</td>
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<tr>
<td>California CPI</td>
<td>1.80%</td>
<td>3.10%</td>
<td>2.70%</td>
<td>3.10%</td>
<td>3.20%</td>
<td>3.30%</td>
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<td>California Lottery¹</td>
<td>Base Prop 20</td>
<td>$112.50</td>
<td>$111.00</td>
<td>$110.00</td>
<td>$108.75</td>
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<tr>
<td>PERS Employer Rate¹</td>
<td>10.70%</td>
<td>10.92%</td>
<td>14.26%</td>
<td>14.43%</td>
<td>14.43%</td>
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<tr>
<td>Interest Rate for 10-Year Treasuries</td>
<td>3.20%</td>
<td>3.80%</td>
<td>4.10%</td>
<td>4.30%</td>
<td>4.40%</td>
<td>4.50%</td>
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</table>

¹Assumes continued implementation of the Workload Adjustment Act, which requires a 3.34% reduction in regular full-time equivalent (FTE) positions each year.

²Assumes that the state will continue to provide the same level of funding to community colleges.

³Assumes that the state will continue to provide the same level of funding to community colleges but with a reduced funding model.
Solutions Sustainability Analysis

Question: To what extent will the FY 2011-12 projected budget problem, though solved in the short term, continue into FY 2012-13?

- One-Time Only Solutions $8.30
- One-Time Solutions for One-Time Problems $1.63
- Ongoing “Base” Solutions $8.48

Total Solutions $18.41

Solutions Sustainability Analysis (continued)

FY 2012-13 Projection

<table>
<thead>
<tr>
<th></th>
<th>Best Case</th>
<th>Middle Case</th>
<th>Worst Case</th>
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<tbody>
<tr>
<td>Current Projection</td>
<td>$(1.88)^1</td>
<td>$(7.65)^2</td>
<td>$(11.18)^3</td>
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<tr>
<td>Exclude STRS</td>
<td>-</td>
<td>1.88</td>
<td>3.75</td>
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<td>Revised Projection</td>
<td>$(1.88)</td>
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<tr>
<td>Prior-Year One-Time Solutions</td>
<td>(8.30)</td>
<td>(8.30)</td>
<td>(8.30)</td>
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<td>Projected Budget Problem, Fiscal Year 2012-13</td>
<td>$(10.18)</td>
<td>$(14.07)</td>
<td>$(15.73)</td>
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</tbody>
</table>

^1 Assumes $5.94m in New State Funding
^2 Assumes $1.67m in New State Funding
^3 Assumes No New State Funding
EXPENDITURES
- One-time solutions for base spending
  plus
- Auto Pilots @$5m/year
  plus
- STRS/PERS

REVENUE
- COLA
- Growth
- Capital Gains
- Property Taxes

CONUNDRUM
- Funded FTES must be maintained:
  - Revenues
  - Mission assaults (see below)
- Funded FTES, grants and Measure C must be supported by a
decreasing core of non-teaching support stretched thin (San
Jose?).
- Fiduciary responsibility for maintaining capital assets is
  now becoming a concern.
- IT refresh funding and the pace of technological change. The
  Audit will yield improvement, but then what?
- 3 College district - increased overhead - 50% law
- Mission assaults:
  - Who we Serve
  - What we Offer
  - Student Success (but lack of student preparedness)
- Rising (perhaps rapidly) enrollment fee
- State budget crises and the Great Recession - When will
  they end, 3 years? 6 years? 9 years? Or ? years?
2016 BUDGET SCENARIOS
EXAMPLES

- Status Quo...Continue on as we have and continue to look for band aids to stop the bleeding...becoming an emaciated version of our former selves.

- State Assisted...Find new revenue sources to offset State cuts and assume modest increases in the enrollment fee; probably a bit smaller organization, which would likely require modest restructuring.

- State Assisted +...Same as above but with an enrollment fee at or above the national average for tuition; probably an enrollment size below the other State-assisted scenario; again, some restructuring would be required.

- Major Restructuring...Assumes new revenue sources are few, if any, and that the enrollment fee is at or above the national average; no real systemic change in parameters applied to the CCC; significantly smaller enrollment and organization; major restructuring required.