MEMORANDUM

To: Colleagues

From: Ann-Marie Gabel

Date: August 30, 2012

Re: District Budget Update

We recently finalized our year-end closing for the fiscal year ended June 30, 2012 and our Adopted Budget for fiscal year 2012-13. Based upon the results, we can see that we have made a huge headway towards eliminating our deficit spending. Everyone deserves a thank you and congratulations for all that we have accomplished together. For the past several years now, the Executive Team has been asking all of us to be thoughtful and frugal with our spending and only to make purchases that are absolutely necessary. It’s obvious that the message has been heard, taken to heart, and acted upon by almost every division/department/program within our College. As a result, we spent $3.3 million over the amount of income that we generated for the year, significantly down from what was budgeted. This is depicted below on the Surplus/(Deficit) line item.

<table>
<thead>
<tr>
<th></th>
<th>Adopted Budget 2011-12 (A)</th>
<th>Estimated Actual in April 2012 for Tentative Budget (B)</th>
<th>Actual Year-end 2011-12 (C)</th>
<th>Adopted Budget 2012-13 (D)</th>
<th>% Variance in Estimated Actual vs. Year-end Fav/(Unfav) (B-C)</th>
<th>% Variance in Year-end vs. Adopted Budget Fav/(Unfav) (C-D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>101,692,834</td>
<td>101,122,796</td>
<td>101,560,043</td>
<td>101,664,651</td>
<td>0.40%</td>
<td>0.10%</td>
</tr>
<tr>
<td>Expenditures</td>
<td>109,834,589</td>
<td>108,583,819</td>
<td>104,864,808</td>
<td>102,932,732</td>
<td>3.43%</td>
<td>1.84%</td>
</tr>
<tr>
<td>Surplus/(Deficit)</td>
<td>(8,141,755)</td>
<td>(7,461,023)</td>
<td>(3,304,765)</td>
<td>(1,268,081)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>10,003,926</td>
<td>10,684,658</td>
<td>14,840,916</td>
<td>13,572,835</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As you can see in the table above, our revenues came in basically where we thought they would and our expenditures were down by $3.7 million due to the following:

**Revenues** - The $437 thousand increase in revenues from our Estimated Actual amount of $101.1 million to our Year-end Actual of $101.6 million is primarily attributable to an increase in State Lottery and Other Local revenue. It amounts to less than one-half percent of an increase in funding than what was anticipated.
Moving into the 2012-13 fiscal year, we are budgeting our revenues to remain virtually flat from what we received in 2011-12. We’ll go from receiving $101.6 million to $101.7 million.

**Expenditures** – The decrease in expenditures is directly attributable to actions taken throughout the year to consciously reduce our expenditures. Primarily, both our enrollment management practices and the reduction in summer school saved the College over $1.3 million. Additionally, we continue to see tremendous benefits from the energy efficiency programs that have been put into place within the last few years, saving us about $200 thousand. Over $2.2 million in expenditure savings were the result of just about every department not spending their entire allocation.

Moving into the 2012-13 fiscal year, we are budgeting our expenditures to decrease by almost $2 million. We’ll go from spending $104.9 million to $102.9 million. This is due to the tough decisions and sacrifices that were made this past year.

As you probably already know, the State has developed their budget assuming that the Governor’s tax initiative (Proposition 30) will pass. We have done basically the same thing. Although our Adopted Budget for 2012-13 shows that we are on the right path towards eliminating our deficits, there is still much risk and uncertainty on whether our revenue estimates will hold true. As a result, we will begin discussions and will develop plans this fall semester to reduce our spending by a minimum of $2 million for the 2013-14 fiscal year. Furthermore, we have developed our own set of “Triggers” tied to revenues that will establish the additional amount of cuts needed for the 2013-14 fiscal year. The two triggers are as follows:

- **Trigger 1** is directly impacted by the deficit factor imposed by the State. We have built a 1% deficit factor into our budget. If the deficit factor exceeds 1%, then we will establish cuts totaling $500 thousand for every portion of 0.5% above 1%, up to a maximum of an additional $2 million in cuts.
- **Trigger 2** is directly tied to the passage of Proposition 30. If it fails, then the State Chancellor’s Office estimates that we will lose $6.4 million in funding mid-year. We are not planning on making these cuts mid-year but rather will develop the plans to take effect for the 2013-14 fiscal year. This means that our planned deficit of $1.3 million could increase to $7.7 million.

The estimated maximum amount of cuts that we plan to make for the 2013-14 fiscal year will be $8.4 million.
The following chart summarizes the possibility of additional cuts:

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Percent of deficit factor</th>
<th>Base Cut (this cut will take place regardless of the outcome of the election or the deficit factor)</th>
<th>Prop 30 passes (additional cuts based on deficit factor – Trigger 1)</th>
<th>Prop 30 fails (additional cuts are NOT based on deficit factor, rather a flat rate is used – Trigger 2)</th>
<th>Total Cuts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A</td>
<td>0.00% - 1.00%</td>
<td>$2,000,000</td>
<td>$0</td>
<td></td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Scenario B</td>
<td>1.01% - 1.49%</td>
<td>$2,000,000</td>
<td>$500,000</td>
<td></td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Scenario C</td>
<td>1.50% - 1.99%</td>
<td>$2,000,000</td>
<td>$1,000,000</td>
<td></td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Scenario D</td>
<td>2.00% - 2.49%</td>
<td>$2,000,000</td>
<td>$1,500,000</td>
<td></td>
<td>$3,500,000</td>
</tr>
<tr>
<td>Scenario E</td>
<td>2.50%+</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
<td>$6,400,000</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Scenario F</td>
<td></td>
<td>$2,000,000</td>
<td>$6,400,000</td>
<td>$8,400,000</td>
<td>$4,000,000</td>
</tr>
</tbody>
</table>

Further details related to the “Trigger” language can be found on Attachment A.

I wish I could say that if Proposition 30 passes, we are out of the woods, but unfortunately we are not. Within the State’s budget, they have estimated that $855 million will come to community colleges as a result of Proposition 30 passing, for LBCC this is over $21 million. The additional tax revenues received will be placed into an Education Protection Account (EPA). However, the wording of the State budget indicates that community colleges will receive 11% of all the funds collected in the EPA, not the $855 million that they estimated. The Legislative Analyst’s Office (LAO) has stated that they believe this $855 million estimate is overstated by 25%. This means that if the LAO’s projection is true, LBCC could lose around $5.25 million due to the lack of tax receipts.

I have to say that this is one of the most frustrating and confusing budgets that the Legislature has passed yet. Again, we are left in limbo on: 1) whether an initiative will pass or not – meaning will we or won’t we have mid-year cuts; and 2) even if it does pass on whether the estimated revenue from the initiative will come in or not – meaning will we or won’t we lose funding at the end of the year.

This is going to be a very taxing year on all of us, but I know we can get through it. I only hope that we will all work together to do what needs to be done to position LBCC so that we can remain fiscally viable into the future knowing that the State’s fiscal situation isn’t going to turn around any time soon.
Note: We will be taking actions to reduce our expenditures by $2,000,000 during the 2012-13 fiscal year to take effect on July 1, 2013 regardless of whether either or both of the below Triggers are instituted. The total amount of expenditure reductions will be $8,400,000 if the taxes fail.

Trigger 1 – If the deficit factor imposed by the State exceeds 1% at P-1 (late February/early March 2013), then we will cut an additional $500,000 for each 0.5% increase above 1%.

This Trigger will activate if our Apportionment Revenue, as calculated by the State Chancellor’s Office at P-1, falls below $93,608,394.

Trigger 2 – If Governor Brown’s tax initiative fails, then we will cut $6,400,000.

Given the various factors that may occur, the scenarios listed below identify the amount of the cut needed based upon all the potential possibilities.

Scenario A – No triggers imposed, cut = $2,000,000

Scenario B – Taxes pass but deficit factor between 1.01% and 1.49%, cut = $2,500,000
   (Apportionment Revenue is between $93,608,393 and $93,135,623)

Scenario C – Taxes pass but deficit factor between 1.5% and 1.99%, cut = $3,000,000
   (Apportionment Revenue is between $93,135,622 and $92,662,855)

Scenario D – Taxes pass but deficit factor between 2.0% and 2.49%, cut = $3,500,000
   (Apportionment Revenue is between $92,662,854 and $92,190,085)

Scenario E – Taxes pass but deficit factor greater than or equal to 2.5%, cut = $4,000,000
   (Apportionment Revenue is below $92,190,084)

Scenario F – Taxes fail, cut ≈ $8,400,000