In order to begin shaping the direction for building the tentative budget for 2011-12 and looking ahead with an expectation that the state funding for community colleges will not improve until at least 2014-15 and that SBCC will face severe ongoing cuts ahead (from a low of $3.9 million to a high of $10.5 million in 2011-12), it is important to have the Board’s guidance in the next one to two months regarding key assumptions, recommendations and questions outlined below. As it is always the case, building the tentative budget is an iterative process through June when a tentative budget is brought for Board approval.

1. **Recommendation: Implement the ongoing cut to base funding in a three-year phased approach** as follows:

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<th>2011-12</th>
<th>2012-2013</th>
<th>2013-14</th>
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<tbody>
<tr>
<td>If cut is $3.9 million</td>
<td>$ 1 million</td>
<td>$ 1 million</td>
<td>$ 1.9 million</td>
</tr>
<tr>
<td>If cut is $6.8 million</td>
<td>$ 2 million</td>
<td>$ 2 million</td>
<td>$ 2.8 million</td>
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<tr>
<td>If cut is $10.5 million</td>
<td>$ 2 million</td>
<td>$ 4 million</td>
<td>$ 4.5 million</td>
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This approach will mean that the current reserves will be reduced significantly over the next three years (we are working on an analysis of the impact of these scenarios which we will bring to a future meeting of the Fiscal Committee and Study session). However, given the magnitude of the reduction, implementing the entire ongoing cut in one year will have a severe negative impact on our students, programs and employees and will not allow sufficient time for analysis and planning. The **annual cuts in expenditures proposed above need to be true ongoing expenditure reductions rather than one-time reductions**. The reserves we currently have are serving us extremely well and will allow us to implement this phased approach. In addition, there are a number of policy proposals at the state level, which, if implemented, will change the funding for community colleges in very important ways and we may not have the choices that we currently have.
2. **Recommendation:** Maintain center status for Schott and Wake – maintaining center status requires a minimum of 1,000 FTES per center. The 1,000 FTES can be a combination of non-credit and credit FTES. Currently, there is a small number of credit classes offered at the Wake Center through the Professional Development Center and Construction Academy, totaling about 70 FTES per year. The college has the capacity to offer more credit classes at the Wake Center depending on space availability.

   a. **Question for the Board:** Will the Board support the college offering additional credit classes at the Wake Center and possibly, but less likely, at the Schott Center, and maintaining the Center status through a combination of credit and non-credit FTES rather than exclusively through non-credit FTES?

3. The ongoing state funding cut looks very likely to be implemented as a **workload reduction in 2011-12**, meaning reducing the base of FTES funded, the same way the $2.6 million reduction in ongoing reduction in our base funding was implemented in 2009-10. Based on recommendation 1 above, the recommendation is to allow for some unfunded FTES in 2011-12 and 2012-13 and we are working on further analysis.

   **Recommendation:** maintain the enhanced non-credit FTES at current level of about 930 annually; consider reducing non-credit non-enhanced FTES from an estimated 1,263 in 2010-11 to 1,000 in 2011-12 to allow for a lower reduction in credit FTES than otherwise possible. Consider offering additional non-credit classes for a fee under Community services. Reduce credit FTES in a phased approach over three years as follows: a) in 2011-12, the college will not exceed $2,000,000 in unfunded FTES; b) in 2012-13, the college will not exceed $1,000,000 in unfunded FTES; c) in 2013-14, the college will not exceed $200,000 in unfunded FTES.

   **Work on the summer 2011 schedule for non-credit** starts in mid-March 2011. It is important to make a decision regarding the non-credit courses offered in Summer 2011 by March 15.

   a. **Question for the Board:** How does the Board view the implementation of the workload reduction in terms of the split of the FTES reduction between credit and non-credit?

4. **Recommendation:** Maintain the commitment that all regular employees of the college will be employed – no layoffs of regular employees due to budget reductions. The college employs a large number of adjuncts and short-term hourly workers.

   a. **Question for the Board:** What is the position of the Board?

5. **Support for categorical programs (EOPS, DSPS, matriculation):** since 2008-09 when the state funding for categorical programs has been cut by about 50%, the college has increased
significantly the support for these programs from the general fund above and beyond what was already funded from the general fund. In 2010-11, $825,173 additional funding from the general fund is committed to offset the state budget cuts and maintain an overall level of funding of over 90% of what these programs had in overall funding in 2007-08.

**Recommendation:** To the extent that the workload reduction will result in fewer students served, the overall funding needed by these programs will decline, however we will not know the impact regarding demand for the services offered by these programs until later in 2011-12. For 2011-12, maintain the same total additional support from the general fund as in 2010-11.

a. **Question for the Board:** What is the position of the Board?

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6. **Borrowing:** Due to effective and prudent fiscal management the college has never needed to borrow in order to deal with cashflow challenges created by deferments in state payments or increased costs.

**Recommendation:** Commit to not arrive at a situation where the college is forced to borrow money to deal with cashflow.

a. **Question for the Board:** What is the position of the Board?

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8. **General fund reserves:** Due to effective and prudent fiscal management the college has been able to end 2009-10 with a total of $30.4 million in fund balances (general fund, construction and equipment funds). The minimum required by the State Chancellor’s Office is 5% of the restricted and unrestricted operating budget. Accreditation standards set expectations of minimum fiscal solvency and stability (see standard IIID).

**Recommendation:** Maintain a cash fund balance equal to 5% + cost of TLU liability + annual deferrals paid into the next fiscal year. This is the minimum level of cash needed to ensure that we meet cashflow needs throughout the year without the need to borrow (see cashflow analysis provided for the meeting of the Fiscal Committee on February 7, 2011).

a. **Question for the Board:** What is the position of the Board?

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9. **Construction and equipment funds:** The physical and technical infrastructure of the campus needs to be maintained in order to provide a positive and effective learning environment for our students and a reasonable working environment for our employees. The college must maintain a high standard in our technology – hardware and software – in order to provide a quality of education that our students need to receive from SBCC. Learning on obsolete equipment and software will not provide our students with the education that expect and need to receive to be
competitive in the job market or as they pursue higher education at the university level. The state has stopped providing block grant funding for instructional equipment. Without a sustained effort on the part of the college to save money and replenish out equipment and construction funds, the college will fall behind and jeopardize the quality for which SBCC is known and respected statewide and around the nation. Just the routine annual maintenance of facilities is about $640,000 per year. As in any institution of this size, there are always unexpected issues that occur throughout the fiscal year with equipment or pipes breaking or other emergencies that must be addressed right away. The annual cost for scheduled replacements of computers and servers is about $700,000/year. This does not include the cost of cyclical replacement of other equipment that is non-computer related.

**Recommendation:** Transfer at least $2 million/year into the construction fund and $1.5 million/year into the equipment fund.

**a. Question for the Board:** What is the position of the Board?