Subject: FW: Current Year Deficit
Attachments: P1_Deficit.docx; BudgetUpdate_Jan12.docx

From: Troy, Dan [mailto:dtroy@CCCCO.EDU]
Sent: Tuesday, February 21, 2012 10:09 AM
To: SO2CBO@LISTSERV.CCCNEXT.NET
Subject: Current Year Deficit

Colleagues,

Attached is a brief note regarding the current year deficit calculated at P1.

Thank you,
Dan Troy
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Colleagues,

As you know, the P1 apportionment identifies a significant current year deficit in system funding. The total shortfall identified is $179M (3.29% statewide, but effectively a 3.42% deficit for non-basic aid districts) and consists of the following elements:

- $107M due to a fee revenue shortage
- $41M in property taxes
- $30M due to the Tier 1 trigger reduction
- $1M due to other miscellaneous adjustments

As the $30M trigger cut was anticipated, we should not expect any relief for that portion of the deficit. <u>That, however, still leaves a hole of $149M that districts had no reason to expect</u>. Given the major reductions the system has experienced in recent years, an unanticipated deficit is unacceptable.

Addressing this shortfall will be a major focus of this year's budget advocacy. Chancellor Scott and I have already met with Finance Director Matosantos to communicate the severity of the problem, and I have similarly been informing key legislative staff. These are just the first steps in what I expect will be a unified system push to have the deficit resolved. We believe this shortfall also highlights the problem with not having statutory protection from revenue shortfalls, as K-12 does, and we will be pressing that point, as well.

As one who follows the budget situation in Sacramento closely, though, I do need to caution that there is no guarantee that the deficit will be backfilled. The state has a current year budget deficit identified by the Department of Finance of over $4B and a cash flow situation difficult enough to require new statutory payment flexibility for the Department of Finance. Reportedly, the Treasurer is going to the market to borrow an additional $1B to help cover payouts over the next two months. Given the state's financial distress, <u>districts will need to take a close look at their current year budgets to determine whether any adjustments are needed to make it through the fiscal year in the event the shortfall goes unaddressed</u>.

Similarly, with the prospect of more midyear trigger cuts on the horizon in November (the Department of Finance now estimates the CCCs will be in line for a trigger reduction of $292M if the Governor's ballot initiative fails), districts need to have a plan in place to address the possibility of another difficult year in 2012-13. An economic recovery appears to be underway, but, without voter approval of increased revenues this fall, the recovery does not appear to be fast enough to help turn the negative tide until the 2013-14 fiscal year.

Regards,
Dan Troy

Vice Chancellor for Fiscal Policy
Chancellor's Office of the California Community Colleges