

Questions and Answers from November Council - Budget & Finance

- Questions from November College Council
 - Provide explanation of the IRS liability
 - What will be the impact of next year's predictions on the delayed tax filing on the State Budget? (January timeline, May Revise, June/July approval, etc.)
 - What is the impact of the Legislative Analyst's Office (LAO) predictions?
 - What cost-savings strategies is the District considering, to counter budget shortfalls?
 - What is the District's timeline for implementation of its cost-saving strategies?

Provide explanation of the IRS liability

There are 2 outstanding issues – 1) TIN/SSN payments and 2) Employer Health Payments. Payments to the Internal Revenue Service (IRS) are due or potentially due once negotiations are eventually completed at an unknown future date.

- 1) Payments related to incorrect TIN/SSN information for tax years 2017, 2020, and 2021 which includes assessed penalties and interest. This Fund 11 expense is \$191,428.19 and is on the December 2023 Board Agenda for immediate payment to the IRS as current year payment with no reserves set aside.
- 2) Payments related to failure to file timely returns associated with Employer Provided Health Insurance Information for tax years 2018 and 2019, totaling approximately \$4,006,346.75. These penalties and interest are currently tolled as a result of directing Parker & Covert, LLP. to file appeals with the IRS in late 2022. The IRS has not yet responded to the filings. A reserve accrual of \$3,000,000 was set aside for this possible payment.
- 3) Analysis and discussion of the long-standing issue, resulted in procedural changes and new software which were implemented in late 2022, which minimizes the total value of penalties and resulting interest charges. However, the nature of the data from which the penalties are calculated, will not have 100% accuracy. Therefore, future penalties will still occur albeit, at a significantly smaller amounts.

What will be the impact of next year's predictions on the delayed tax filing on the State Budget? (January timeline, May Revise, June/July approval, etc.)

In response to State disasters in 2021 and 2022 the State and Federal governments delayed filing dates for tax payments due. Since then tax revenues have not materialized as initially planned for. It is important to realize that it is not an issue of delayed tax filings and payments but **the fact is tax revenues are significantly lagging budget projections – the tax revenues are not being received.**

Indications are that the State expects to be \$68 million short on revenue for the combined fiscal years of 2022-23, 2023-24 and 2024-25. The State has options to use the Prop 98 Reserve to shore up this projected shortfall, but in the process it would exhaust this reserve and lose the flexibility to mitigate future shortfalls. The situation is dynamic and it is difficult to predict which course the State will take.

The 2024-25 Governor's Budget proposal should provide information and direction on this issue.

What is the impact of the Legislative Analyst's Office (LAO) predictions?

School Services of California Fiscal Outlook posted December 7, 2023 “estimates that the state (California) faces a \$68 billion deficit over the three-year period covering 2022-23 to 2024-25.” The State is expecting a significant and ongoing reduction in Revenues (\$68 Billion for 2022-23, 2023-24 and 2024-25 combined) and the resulting reduction to revenues projected for the Prop 98 funding guarantee, which provides for approximately 40% of state revenues to be directed to K-14 education. K-12 typically receives 89% of this while roughly 11% of Prop 98 revenues are distributed to Community Colleges. If the predictions materialize as these are currently projected, Prop 98 Revenues could be reduced by \$15.4 Billion for fiscal years 2022-23, 2023-24, and 2024-25.

A reference point:

[California faces record \\$68 billion budget deficit, nonpartisan legislative analyst says \(msn.com\)](https://www.msn.com/en-us/news/politics/story/california-faces-record-68-billion-budget-deficit-nonpartisan-legislative-analyst-says)

What revenues have the rentals (athletics, theatrical, non-theatrical venue - filming) generated for the District?

- 1 - Where is that revenue reflected in the Budget Presentation/line item?
- 2 - Revenues generated for the last four fiscal years.
- 3 - How much revenue was lost due to impact from SAG-AFTRA strike?

Athletics and Fine Arts Revenues are reflected in object 48890 in Fund 79 as these are Auxiliary Activities conducted by students and staff and are typically just enough to cover the associated expenses of staging the events for which revenues are received.

Use of Facilities Revenues for filming, etc. are reflected in object 48850, Fund 11 on the budget document. A significant portion of the revenues are paid to ECC employees for additional work associated with the various rental activities.

As facilities rentals are a demand and available area proposition there is no way to specifically identify the loss of revenue to the District as a result of the strike. However, indications are this revenue is projecting at about ½ of fiscal year 22-23.

				Values			
				Sum of 6/30/2021	Sum of 6/30/2022	Sum of 6/30/2023	Sum of 6/30/2024
				Year-To-Date	Year-To-Date	Year-To-Date	Year-To-Date
Fund	Department	Department Title		Actual	Actual	Actual	Actual
F-11	F- 6705	Civic Ctr Comm Serv		\$ 268,789.00	\$ 538,751.98	\$ 1,079,651.28	\$ 289,203.41
11 Total				\$ 268,789.00	\$ 538,751.98	\$ 1,079,651.28	\$ 289,203.41
Grand Total				\$ 268,789.00	\$ 538,751.98	\$ 1,079,651.28	\$ 289,203.41

Budget Status – what cost savings strategies is the District considering?

Budget Strategies Leadership Meeting
12/15/23

1. Welcome and Introductions – Lopez & Stephenson
2. Charge – Lopez & Stephenson
3. Current Budget News and Context - Suppelsa
4. Develop Initial Budget Reduction Principles - All
 - a. Keep Budget Reductions Away from Students
 - b. Communicate Clearly and Operate with Transparency Related to the Budget and Reductions
 - c. Retention of Permanent Employees
 - d. Critically Review All Current Expenditures for Potential Reduction
5. Recommend a Committee or Taskforce for Specific Budget Reduction Strategies – All
6. Next Meeting and Steps

Please review the information in the link below prior to the meeting:

[California faces record \\$68 billion budget deficit, nonpartisan legislative analyst says \(msn.com\)](https://www.msn.com/en-us/news/politics/story/california-faces-record-68-billion-budget-deficit-nonpartisan-legislative-analyst-says)

What is the District's timeline for implementation of its cost-saving strategies?

District has been discussing and implementing cost savings since July 1, 2023.

1. Position control is a weekly discussion at Cabinet
 1. Cancellation of 30+ positions that were budgeted in the adopted budget for 23-24 saving \$2,081,557
 2. Positions still open but not staffed since the adopted budget for 23-24 saving \$2,701,777
2. Operating decisions that have increased expenditures – 23-24 Resource allocations \$761,078
3. Net cost savings since July 1, 2023 \$4,022,256
4. Budget Strategies Leadership Committee – first meeting was held December 15, 2023
5. While recent discussion regarding budget shortfalls at the state level has started, the District was fully aware and stated at the adopted budget for 23-24 that it was deficit spending for 23-24 and projections for 24-25 and some combination of expense reductions, revenue increases and spending from accumulated reserves was/is required to reach required financial reserves.

El Camino Community College District Multi-Year Projections (Fund 11 Only - November 2023)

	2023-24 Tentative Budget 1	2023-24 Final Budget 2	2023-24 Current Budget (Nov 2023) 3	2024-25 Projected Budget 4,5	2025-26 Projected Budget 5	2026-27 Projected Budget 5
A - Revenues						
General Apportionment	\$ 151,739,734	\$ 151,739,734	\$ 151,739,734	\$ 151,019,556 ^{4a}	\$ 151,019,556	\$ 151,019,556
Revenue Changes to General Apportionment (2.2926% deficit factor)			\$ (3,478,764) ^{3a}			
Federal	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000
Other State	\$ 12,688,195	\$ 11,710,723	\$ 11,710,723	\$ 11,710,723	\$ 11,710,723	\$ 11,710,723
Other Local	\$ 7,740,200	\$ 7,748,200	\$ 7,748,200	\$ 7,748,200	\$ 7,748,200	\$ 7,748,200
Contributions In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	\$ 172,186,129	\$ 171,216,657	\$ 167,737,893	\$ 170,496,479	\$ 170,496,479	\$ 170,496,479
B - Expenditures						
Certificated Salaries	\$ 56,716,074	\$ 56,716,074	\$ 76,421,453	\$ 71,173,392	\$ 72,418,926	\$ 73,686,257
Classified Salaries	\$ 26,178,215	\$ 30,378,714	\$ 30,493,952	\$ 31,508,181	\$ 31,917,787	\$ 32,332,718
Unrepresented Salaries	\$ 11,919,627	\$ 14,720,740	\$ 14,092,654	\$ 14,561,376	\$ 14,750,674	\$ 14,942,432
Student Workers/TNC's	\$ 3,403,288	\$ 3,457,681	\$ 3,499,064	\$ 3,499,064	\$ 3,499,064	\$ 3,499,064
All Employee Benefits	\$ 40,560,921	\$ 43,763,790	\$ 47,455,172	\$ 46,632,992	\$ 47,379,120	\$ 48,137,186
Books & Supplies	\$ 3,062,975	\$ 3,340,465	\$ 3,008,446	\$ 3,008,446	\$ 3,008,446	\$ 3,008,446
Contracts, Services & Utilities	\$ 13,953,598	\$ 14,578,586	\$ 15,250,208	\$ 15,250,208	\$ 15,250,208	\$ 15,250,208
Equipment & Capital Outlay	\$ 153,704	\$ 462,843	\$ 794,760	\$ 794,760	\$ 794,760	\$ 794,760
Other Outgo (Contributions Out)	\$ 4,759,243	\$ 8,458,743	\$ 3,958,743	\$ 3,958,743	\$ 3,958,743	\$ 3,958,743
	\$ 160,707,645	\$ 175,877,636	\$ 194,974,452	\$ 190,387,162	\$ 192,977,728	\$ 195,609,815
C - (Savings)/Additional Costs Identified to Date						
Net Position Control Savings from Closed Positions	n/a	n/a	\$ (2,081,557)	\$ (2,081,557)	\$ (2,081,557)	\$ (2,081,557)
Position Control Savings from Vacancies (estimated)	n/a	n/a	\$ (2,701,777)	\$ -	\$ -	\$ -
Annual Planning Items not yet in Budget 6	n/a	n/a	\$ 761,078	\$ -	\$ -	\$ -
Subtotal (Savings)/Additional Costs	\$ -	\$ -	\$ (4,022,256)	\$ (2,081,557)	\$ (2,081,557)	\$ (2,081,557)
Total Expenditures less Identified Savings	\$ 160,707,645	\$ 175,877,636	\$ 190,952,197	\$ 188,305,605	\$ 190,896,171	\$ 193,528,258
Surplus / (Deficit)	\$ 11,478,484	\$ (4,660,979)	\$ (23,214,304)	\$ (17,809,126)	\$ (20,399,692)	\$ (23,031,779)
D - FUND BALANCE DATA						
Beginning Fund Balance	\$ 64,727,238	\$ 58,127,316 ^{2a}	\$ 58,127,316	\$ 34,913,012	\$ 17,103,887	\$ (3,295,805)
Ending Fund Balance Projections 8	\$ 76,205,722	\$ 53,466,337	\$ 34,913,012	\$ 17,103,887	\$ (3,295,805)	\$ (26,327,584)
E - Reserves Requirements						
State Required Reserve (3%)	\$ 4,821,229	\$ 5,276,329	\$ 5,728,566	\$ 5,649,168	\$ 5,726,885	\$ 5,805,848
Board Required Reserve (6%)	\$ 9,642,459	\$ 10,552,658	\$ 11,457,132	\$ 11,298,336	\$ 11,453,770	\$ 11,611,695
Required Minimum Reserve Under Emergency Conditions Agreement with Chancellor (17% of Expenditures for the given year) 7	\$ 27,320,300	\$ 29,899,198	\$ 32,461,873	\$ 32,011,953	\$ 32,452,349	\$ 32,899,804
Amount that the District Fund Balance is under the projected Fund Balance requirement under the Emergency Conditions Agreement with the Chancellor's Office=>				\$ (14,908,086)	\$ (35,748,154)	\$ (59,227,388)

Notes:

- 1 - Tentative Budget was produced and published prior to any Negotiations settlements. Note that no bargaining proposals are reflected in the District's Financials at this point.
- 2 - ECCE & Unrepresented negotiations are settled before final Budget is published and are reflected in the District's Financials at that time. AFT negotiations are not yet settled, and are thus not reflected in the District's Financials at Final Budget.
- 2a - Beginning Fund Balance for 2023-24 Final Budget reflects final closing balance for 2022-23 after Fiscal Year close is completed and reflects the 2022-23 negotiations 2022-23 retros (ECCE & Unrepresented) processed prior to Fiscal Year close.
- 3 - All Units negotiations are settled and now reflected in the District's Financials, including the retro for Faculty.
- 3a - Applied 2.2926% deficit factor as indicated by Chancellor's Office resulting in \$3,478,764 reduction to ECC's 2023-24 General Apportionment Revenue.
- 4 - Projected 2024-25 COLA has been revised from 3.94% down to 1.00% by the California Legislative Analyst's Office (LAO).
- 4a - General Apportionment revenue was projected to be \$155.4 million with 3.94% funding COLA, is now projected to be \$151.0 million (reflects a \$4.4 million reduction to 2024-25 projected revenues from earlier estimates). Given the shortfall in State Revenues to date, it is prudent for us to apply the funding deficit for ECC as indicated by the Chancellor's Office.
- 5 - Step & Column movement for all staff are estimated and reflected in the multi year analysis above
- 6 - Of the Annual Planning Items approved, one item with a cost of \$229,422 is at present reflected in the current budget, the remaining \$761,078 will be posted to Colleague prior to Winter Break
- 7 - If we do not meet the minimum reserve requirement under the Emergency Conditions Agreement filed with the Chancellor's Office, we will be placed under Special Fiscal Monitoring from the State Chancellor's Office per Lorena Romero, Director of Fiscal Standards and Accountability at the Chancellors Office