

MEMORANDUM

TO: Board of Education
FROM: Mary Spilde
DATE: October 31, 2005
RE: Budget Development FY 07

It's that time of year again when we need your guidance and approval to move forward with the development of the budget for 2006-07. This memorandum is provided to assist your decision making by presenting different perspectives on the issues. Much work has already been done internally to prepare. This year for the first time the new governance system, namely, College Council, has been involved with these preparations, in addition to members of the Executive Team in their dual roles as administrators and council members. The College Council has a role in budget development that is both substantive and process-oriented.

The attached documents outline the work that College Council has developed as well as the assumptions and projections prepared by the Budget Office which have been reviewed by the College Council.

1. Process flow chart with responsibilities and timelines;
2. Narrative to further explain process flow chart (these documents have been slightly modified since they were reviewed and approved by the board in July 2005);
3. Principles and Criteria that will guide decisions in the budget process;
4. Assumptions on which budget projections are based; and
5. Current projections.

We are asking that the board review these documents and provide direction for the president with regard to budget development for 2006-07.

When we last discussed projections in July, there were several variables which remain in the new projections:

- Funds through formula
- State Board needs to decide set-aside
- Final position list/M&S actual expenditures
- Ending fund balance
- Health insurance
- FY 07 PERS Rate

At that time we proposed that if the deficit was approximately \$1.2 million, we would not move into a major budget reduction mode but would attempt to

bridge the deficit through one-time savings. Considerations for this approach would be:

- enrollment trending up
- ending fund balance meets expectations
- 2008 budget looking positive from formula and state revenues/political perspective

In addition, we discussed categories to be considered for additions to the budget:

- Current projects not funded with recurring funds
- New projects/initiatives
- Efficiencies

At that time, it was proposed that we set aside approximately 1% of the general fund budget (approximately \$750,000). To the extent that any of these are funded, the budget deficit would increase.

Now that we have firmer projections (although expect some changes as we go through the year), we need to make a final decision on our approach for the 07 budget. (Please note that the audit is not completed and therefore the projections are not based on final actual data from FY05. This could change our ending fund balance significantly and might have an effect on expenditure projections as well.) As you can see, current projections are showing a deficit for FY 07 of \$1.6 million.

College Council has considered the following options which I will present with some commentary on each option for your consideration. It should be noted that this commentary is my own and does not necessarily reflect the views of College Council!

Option #1: Given a \$1.6 million deficit, the college should immediately move into a budget balancing process that will cut recurring expenditures, increase tuition beyond the Higher Education Price Index, or a combination of both.

Option #2 The College should, instead, make short-term, one-time reductions to bridge to the next biennium.

In addition, College Council has considered whether the college should set funds aside for new initiatives even while we are facing budget deficits.

Commentary:

Obviously, there are advantages and disadvantages of each approach:

1. Clearly, the advantage of moving swiftly into a budget balancing process and making recurring reductions or increasing tuition is that we balance the budget and potentially position the college better in future years.

However, there are significant downsides. Those of you who went through the budget reductions in 2001-03 know that the challenge of eliminating or reducing expenditures is very difficult for a number of reasons:

- 82% of our budget is people
- We need to be careful that we do not eliminate programs that generate revenue, yet we cannot hold instructional programs harmless because we are very “thin” on the operations and student services side also. Currently, Lane spends equal to or more than other Oregon community college on instruction and instructional support
- Every program and service that the college offers is needed in the community or by students
- We do not have low quality offerings

In other words, there are no “low hanging fruit” that clearly present themselves as candidates for reduction. Reduction of anything we do will have serious implications for our mission, our community and our students.

Similarly, increasing tuition also presents challenges. Although I do not have statistical proof that shows that increases in tuition have affected our enrollment, we do know that we are losing part-time students who in the past may have been able to piece together enough resources to take a class or two and at current tuition levels find that very hard to do. Lane now has the highest tuition in the state when tuition alone is considered. Once fees are included we are among the top five.

2. Making short-term, one-time reductions to bridge to the next biennium, of course, has the immediate downside of failing to balance our budget which may have ramifications for the longer term. If nothing changes, it will create an even bigger problem for the college in FY08. However, there are some mitigating factors

- We are building from a better base in state allocation
- The Governor has pledged to build his budget on 61% of the general fund for K-20 education and assure a minimum of 10% increase for the biennium (of course, he has to win an election!)
- The economy is not as bad as first thought as result of Katrina et. al.
- This approach would provide opportunity to continue to focus on growing enrollment
- Equalization in the funding formula starts to help Lane
- Once recurring cuts are made, it's difficult to reinstate programs and services
- This approach provides one more year of stability where faculty and staff can focus on student learning instead of job security

- There is \$800,000 in the financial stabilization fund that could be utilized to balance the budget for one year

Again, one-time fixes this year will create a bigger problem next year if none of the potential positive measures occur. From a purely financial planning perspective, it would be more prudent to build our financial stabilization reserve in the second year of a biennium and use it for the uncertainties inherent in building a budget for the first year of a biennium. This is clearly the biggest downside of delaying reductions.

3. Thinking about adding new initiatives on a recurring basis at the same time that we are facing a budget deficit is challenging, to say the least. Some may say that the college should focus on keeping what we are currently doing intact. On the other hand, as an innovative college, there is no shortage of new initiatives that would enhance the college and better serve our community. In July 2005, I discussed a potential approach of setting aside a certain percentage of the budget each year for new initiatives. This is a little harder to think about when we have a larger budget deficit. Since we do not have additional funds, in the short run, new initiatives would have to be funded by substituting them for things we are currently doing or result in an even larger deficit. Again, since 82% of our budget is people, this decision could have implications for faculty and staff positions. This really comes down to a principle of whether we should just be hunkering down and trying to maintain the status quo, or whether we should make the difficult choice of investing in new efforts at some level.

College Council has reviewed all the documents included in the board packet (with the exception of this memorandum) and has had significant discussion at the sub-committee and council level. The Council is recommending the following:

- **The college adopt Option #2 for 2006-07 budget development - temporary budget reductions for FY07**
- **Immediately gather measurement data for potential permanent reductions to FY08 instructional, student service, and operations programs**
- **“Keep the door open” for funding for new initiatives**

I hope this memo will assist you as you think about this very important set of decisions regarding the 2006-07 budget.

Thank you.