Lane Community College℠

BUDGET MESSAGE
FISCAL YEAR 2010-2011

Presented April 28, 2010

Budget Message

Strategic Directions for Fiscal Year 2010-2011

The proposed budget for fiscal year 2010-2011 was developed to further the approved Strategic Directions of the college. New Strategic Directions were recently approved by the Board of Education and are listed on page i of your budget document.

Economic Outlook

Fiscal year 2010-2011 is the second year of the biennium and there is little uncertainty regarding the amount of public funding that will be provided. The economic climate continues to have a grim outlook with high unemployment and steadily declining state revenue forecasts. However, we do not anticipate a further reduction in state support this biennium. Unfortunately, available public resources fall significantly short of what is necessary to serve students and the community, keep education affordable and accessible, maintain compensation levels for employees and meet essential operating requirements of Lane Community College at normal levels of support. In addition, the dramatic reductions in state revenue appear likely to continue into the next biennium. At the same time revenue from public support is decreasing, we have not seen a loss in demand for our programs and services. Conversely, the demand for our services has significantly increased as unemployed workers return to school to better prepare themselves for the next economy. This creates a double economic burden of a need to meet increased demand with significantly fewer public resources. This presents the strategic choices of increasing revenue, maintaining service levels at lower cost, downsizing the college and student opportunities to match the reduced public support, or some combination of all. None of these choices is attractive. Raising revenue through higher tuition and fees shifts the burden of lost public support to the students. Higher prices economically challenge students and violate our value of an affordable public education as a public good. Reducing cost is an objective with which we have had some success but with 80 percent of our costs in staff compensation this shifts the burden of decreased public support to the employees. Downsizing the college through layoffs is the worst option as it diminishes our ability to meet student demand when we are most needed, and places employees into a bad economy with little chance of finding work. Consequently, our goal throughout this process is to keep as many employees working as possible and serve as many students as possible.

Fiscal Year 2010-2011
Budget Strategies:

1) Continue enrollment growth.
2) Reduce cost rather than capacity.
3) Constrain M&S and capital investment costs.
4) Use differential fees to partially offset higher cost programs.
5) Maintain capacity to serve students by retaining employees

Result of FY10 Budget Strategies

For the current budget year the college employed a combination of strategies to balance the budget. Employees took a reduction to the negotiated salary schedule in the form of furlough days or delay in longevity steps, capital investment and maintenance expenses were slashed, and students absorbed an increase in tuition including a two year surcharge. Differential fees were also raised. The college focused on meeting the demand of additional students and was able to accommodate another large increase in enrollment. Extraordinary extra effort by employees including faculty flexibility to allow both full time and part time faculty to teach more classes was critical to this success. The combination of additional revenue and cost reductions enabled the college to both balance the budget and meet student demand.

Unknowns for FY 2011

1. Increase in health care costs/OPE rate
2. Resolution of FY11 economic reopener negotiations with both employee associations.

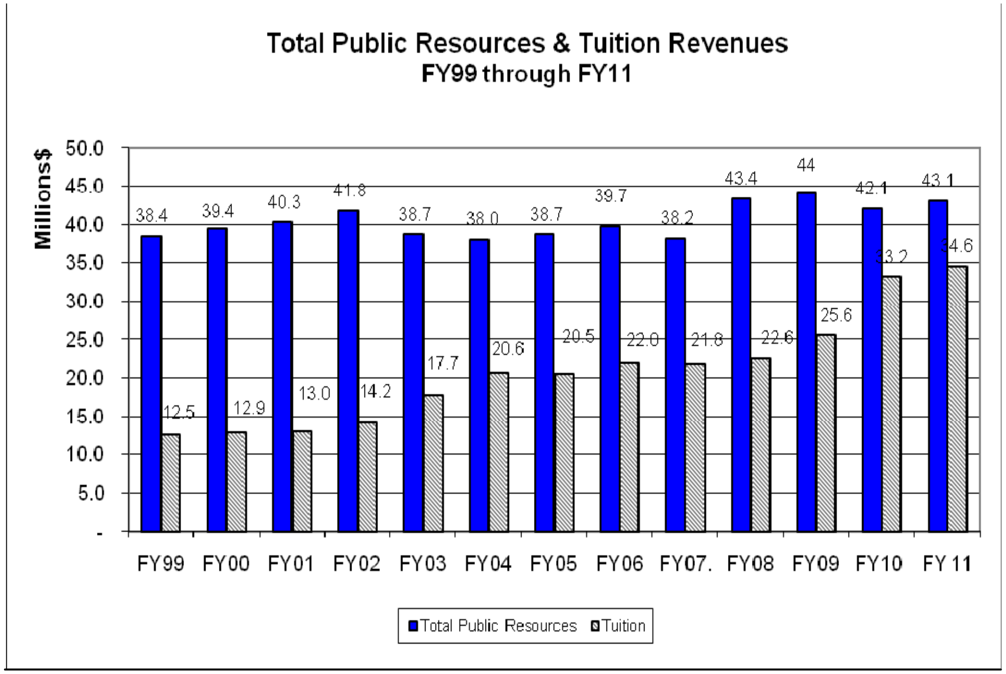
Budget Assumptions

The public support revenue assumption is based upon the state model projections for Lane Community College at an appropriation level of $450.5 million. This model assumes that the college's share of total enrollment relative to other colleges will remain stable and preliminary indications are consistent with that assumption. It also assumes that the higher level of enrollment experienced this year will continue and includes a two dollar a credit hour tuition increase.

1. CCSF funding at $450 million
2. $2 Increase in tuition
3. Restore FY10 reductions in salary schedule
4. $3 tuition surcharge continued

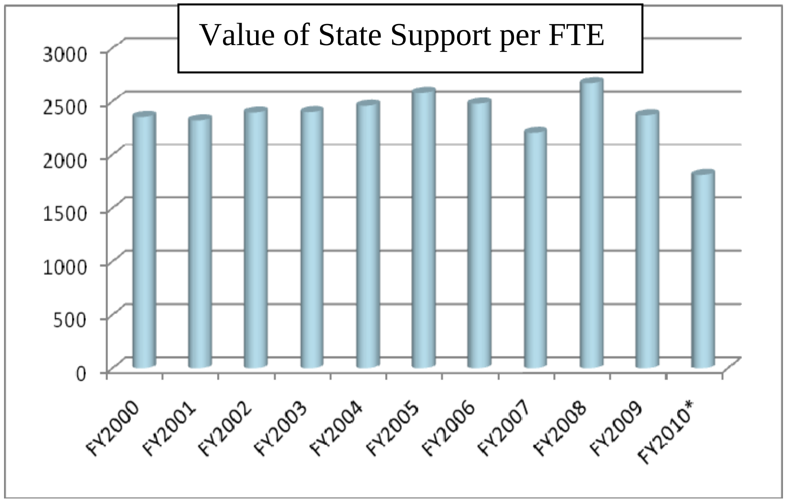
Ending Fund Balance

The ending fund balance is essential to maintain the college's credit rating as well as to ensure fiscal stability. Prior to issuing bonds last June we had a credit rating review by Standard and Poor's. The raters expressed considerable concern about the low level of our ending fund balance but we were able to maintain our A+ rating. This is still lower than the AA rating for other community colleges in the state, and reflects our relatively lower level of reserves. Maintaining an adequate fund balance is critical to retain our rating and ability to issue the remainder of bonds as the current projects are completed in three to four years. To keep the interest costs to county taxpayers as low as possible we must maintain fiscal discipline and an adequate fund balance. Funding the last quarter after the fact is likely a continuing characteristic of our state funding for the long term and it would be more prudent to have the reserves to meet that regular requirement. The ending fund balance is not idle cash. It is comprised of working capital already allocated and in use throughout the college. One change we are able to make this year is to budget a higher beginning fund balance than the required unappropriated ending fund balance. The difference will cover contingency balances that are required but are not expected to be expended except in emergencies. That places the fund balance at risk but frees up revenue that would otherwise be required to offset required contingency expense budget authority.



Enrollment Growth

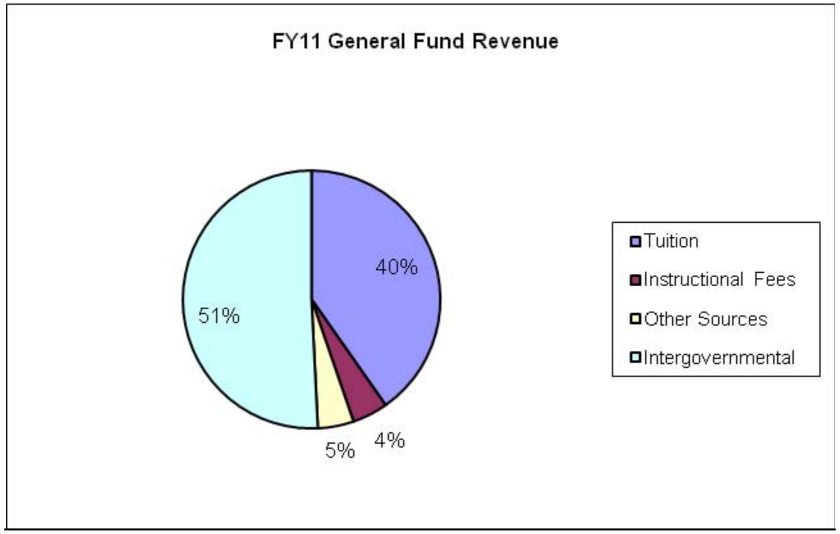
Plans for fiscal year 2010-2011 included efforts to increase both enrollment and productivity. We have observed both significant enrollment increases and productivity gains in the current year. We expect to see a 12% or greater increase in total enrollment for the current year. This has yielded both additional revenue and productivity as classes have fewer empty seats. Generally tuition and fees only account for about a third of our revenue and the greatest benefit of increased enrollment comes from additional state support for the increase in FTE. However, in the current environment all colleges have seen similar significant gains so it is not realistic to expect that we will be able to do more than maintain our relative share of a significantly reduced community college support fund. The budget projects the net benefit of the additional enrollment from this year to continue into next year and assumes an additional increase of 2% next year. Purchasing power of public funds allocated had been declining already in recent years, but the dramatic effect of the recession on state revenues resulted in a 10% reduction in state support for the current biennium. In addition, when combined with the enrollment growth the reduction per student is beginning to approach 30-40%. The long-term disinvestment in Oregon public education threatens college values of affordability and accessibility. We will not abandon our commitment to provide an affordable education for the community but we clearly cannot afford to operate at a loss either.



Compensation and Benefits

We have economic re-openers with both LCCEF and LCCEA regarding compensation for next year. To our knowledge, Lane Community College is the only school district in Oregon that has not set a limit on employer contributions to health care. Preliminary information indicates that costs for medical coverage will continue to increase significantly in FY 2010-2011 and that additional costs will need to be assumed by the college, employees, or both.

General Fund Budget for Fiscal Year 2010-2011



Previously the college was able to insulate employees from the decline in funding levels and maintained steps and cost of living increases according to contractual agreements even if doing so required tapping reserves. Unfortunately, as mentioned earlier there are no excess reserves and funding has further declined. We remain committed to providing competitive salary and benefits but revenue has not kept pace with increasing costs. We are still competitive as this situation is not unique to Lane. Nationwide, the average faculty and administrator salary increase last year was 0% and a third of the institutions reported decreases in compensation. Fortunately, we have been able to maintain very modest increases for employees to this point. In FY 2008 manager salaries were frozen (no COLA salary schedule adjustments and no step equivalent awards), classified employees received days in lieu of a cost-of-living along with a full step for all classified staff, and contracted faculty agreed to a .86% increase with full steps while part-time faculty received the bargained COLA salary schedule adjustment and steps. In FY 2009 all employees received 1/2 step increase and flat 1.0 % salary adjustments along with various one-time payments. In FY10 each employee received the equivalent of a half step but gave up planned salary schedule increases in exchange for furlough days or similar “give-back” agreement. The FY11 budget provides for restoration of the negotiated decreases from FY 2009-2010, but there is little flexibility to support compensation or benefit increases beyond that level.

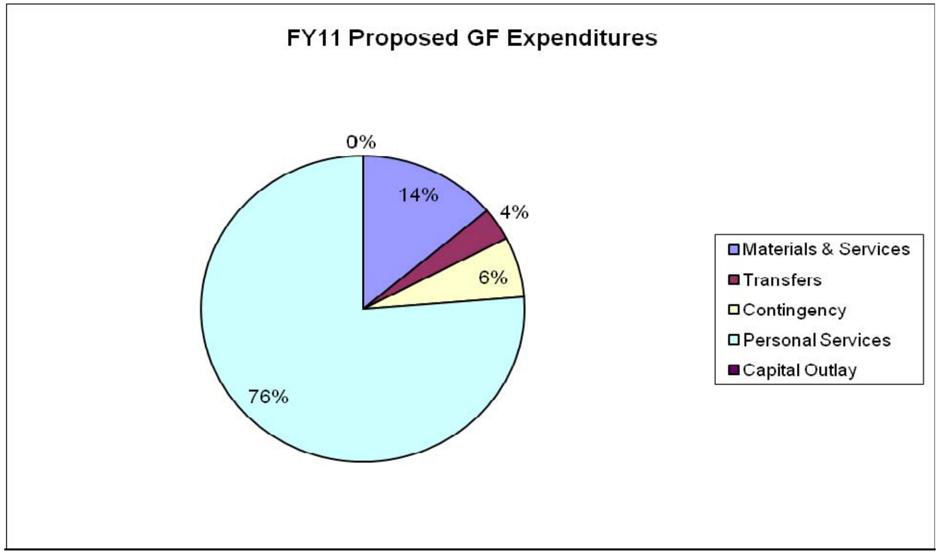
This budget reflects the reality of a forced transition from public funding to a combination of public and private funding sources. Our expenses in the future must be firmly linked to and limited by revenue to provide a financially sustainable model for the reliable and comprehensive access to education our community needs. The guidance of the Board of Education and the Budget Committee will be essential as we work toward this mutual goal. We are recommending a budget package that balances the budget by limiting increases for employee expenses along with a modest increase in tuition that will limit the increase in student costs. As in past years, the FY11 budget will also continue significant budget reductions in maintenance, materials and services, and equipment replacement. Spending in each of these areas is below levels seen five years ago. None of these reductions are sustainable. This budget is guaranteed to make all stakeholders of Lane Community College unhappy.

Resources

The proposed General Fund budget revenue for fiscal year 2010-2011 is $90 million, a 5% increase from the 2009-2010 adopted budget. This increase is mostly from additional enrollment. Revenues from total public resources for fiscal year 2009-2010 include an estimated $28,096,321 from the state Community College Support Fund and an estimated $15,000,000 in property taxes for a total of $43,096,321. This represents a small increase of $1 million from the current fiscal year budget due primarily to an increase in the property tax estimate. This state support estimate anticipates that our share of total state enrollment will be stable during the next year. Because the funding distribution formula includes 100% of Lane's property taxes, state and property tax revenues must be considered together in budget development. Property taxes and state revenues are combined in the "Intergovernmental Resources" line. The 2010-2011 Budget includes a $2.00 per credit inflationary adjustment in tuition as previously approved by the Board of Education according to Board Policy D.110 (Tuition).

Expenditures

The General Fund personal services budget has increased by $7 million or 10% from fiscal year 2009–2010. The increase is due to additional part time and full time faculty hired to accommodate increased enrollment, and restoration of FY10 salary reductions. The materials and services budget has increased due to a change in budget practice to budget for income credit program fees and prior year fee carryovers in department budgets. Therefore you will find increases in department budget amounts. The increases are due to additional enrollment generating more student fees to cover direct instructional expense. Budgeted capital outlay is unchanged. Transfers out to other funds decreased due to actual expense results in some funds and reductions in general fund support to others.



Other personal expense (OPE) rates are likely to change to cover increases in medical costs yet to be determined, and increases in other benefit categories such as pension bonds. In addition, adjustments – both increases and decreases – have been made for expenditures that are primarily beyond the control of the college. These "mandatory adjustments" include such items as facilities leases, utilities, property/liability insurance premiums, and maintenance contracts.

Special Revenue- Administratively Restricted Fund (Fund IX)

The proposed budget for Special Revenue Administratively Restricted Fund IX increased by $1.5 million due to increased enrollment related revenue and expense. Fund IX is composed of administratively restricted activities of the general fund. Budget projections used for budget development combine the General Fund and Fund IX.

TOTAL BUDGET: ALL FUNDS

General Fund (I)	$90,464,800
Internal Services Fund (II)	1,893,771
Debt Service Fund (III)	9,429,112
Capital Projects Fund (IV)	27,010,426
Financial Aid Fund (V)	98,018,105
Enterprise Fund (VI)	15,373,557
Special Revenue Fund (VIII)	18,400,000
Special Revenue: Admin Restricted (IX)	12,538,544
Total All Funds	**$ 273,128,315**

Additional Important Information

Because budget laws require total resources and expenditures to balance, the budget document includes budget expenditure authority for all reasonably anticipated resources in fiscal year 2010-11. There are several changes for next year to increase budget authority for several other funds. The Financial Aid fund budget authority is increased for additional federal financial aid expected because of increased enrollment, increased entitlements, and increased need. The Capital Projects budget authority allows for spending related to bond projects, and completion of the new health and wellness building. The Special Revenue fund has increased budget authority to allow for additional grant activity. None of this additional activity creates any new requirements or revenue for the general fund.

This Budget Document is consistent with the budget laws of the State of Oregon and other applicable policies. The budget is prepared on a modified accrual basis of accounting (revenues reported when earned; expenditures reported when the liability is incurred; taxes accounted for on a cash basis). The result is that carryovers of financial obligations from year-to-year are precluded and projections of anticipated revenue are not inflated.

The format and summarization are consistent with the Oregon Accounting Guidelines for Community Colleges. This budget expresses the basic and essential fiscal requirements of Lane Community College as set forth by the Board of Education. The 2010-2011 Budget Document is submitted herewith for your consideration and action. The staff and I are ready to assist you in the important task of reviewing this document.

Respectfully,

Gregory L. Morgan
Budget Officer/ Chief Financial Officer