

2019-20

Third Quarter Report

SUMMARY OF MAJOR CHANGES

The District has completed its financial analysis for the third quarter of operation (January 1, 2020 through March 31, 2020). Enclosed in this document is a reporting for all of the funds the district maintains as authorized by the California Education Code. The short description and analysis at the beginning of each fund report explains the purpose of the fund and recent financial trends that may have changed from the Adopted Budget. Also, included in this report is a supplemental information section that contains the State Quarterly Report (311Q).

Enrollment Assumptions

Under the Adopted Budget assumptions, we anticipated serving 26,422 resident and non-resident FTES. This number reflected resident enrollment of 22,335 FTES and non-resident enrollment of 4,087 FTES.

Winter quarter enrollment declined year-over-year for the same census period in 2018-19 by 255 FTES. As of the P2 Attendance Report filing (May 2020), we are anticipating a decline of 794 FTES; 268 in resident and 528 in non-resident FTES.

Non-Resident Enrollment

Non-resident enrollment is projected to decline by 528 FTES over the previous year. Enrollment in this area is more volatile and dependent on many external factors, such as access to visas, exchange rates, etc. Due to the COVID-19 Pandemic Shelter-In-Place Order by the Santa Clara County Public Health department, the campuses are temporarily closed which has impacted the Spring quarter enrollment and added to the overall decline. As of third quarter, we are projecting an estimated \$900,000 revenue decline in the non-resident area.

GENERAL PURPOSE FUND EXPENSE

Certificated Salaries

This category is projecting approximately \$1.46 million net cost increase over budget. The net increase is due to higher part-time faculty costs offset by savings from retirements/resignations during the year. The total projected expense of \$81.40 million in the certificated category includes \$4.12 million in COLA.

Classified Salaries

A net \$2.09 million in budget savings is being estimated due to unfilled regular and SRP (supplemental retirement program) vacant positions. The total projected expense of \$32.8 million in the classified category includes \$1.87 million in COLA.

Benefits

Currently, we are projecting approximately \$184K in budget savings to this category that are related to previously noted Certificated and Classified salary adjustments. The total projected expense of \$48.7 million in the benefits category includes \$1.03 million in COLA.

Supplies and Capital Outlay

We are projecting approximately \$900K budget savings in the Supplies and Capital Outlay categories based on historical spending patterns.

Operating Expenses

At this time, we are estimating \$766K in budget savings in the Operating Expenses category based on historical spending patterns.

Transfers/Other

We are currently projecting an increase of \$1 million in non-mandatory transfers out over the budget to address the decline in revenue in other funds. The support increase is comprised of \$500K in Parking fund and \$200K for the Foothill Bookstore fund along with \$300K to cover the expected deficit in Foothill Health Services fund.

GENERAL PURPOSE FUND REVENUE

Revenue

State apportionment reports currently reflect a 3.69% deficit that was associated with potential property tax shortfalls in various areas of the State. In prior years, the property tax revenue has generally materialized as the year progressed and eliminated the shortfall. However, given the latest State budget projections that incorporate the COVID-19 pandemic revenue impact, we are expecting some form of a deficit factor for 2019-20. Because there have been assurances by the Governor to the K-14 sector about insulating from reductions, at least for 2019-20 fiscal year, only a 1% deficit factor is being included for a \$1.5 million State apportionment revenue shortfall.

As reported in the Adopted Budget, during this second year of the new Student Centered Funding Formula (SCFF), the District's 2019-20 general fund apportionment allocation will again be calculated based on the SCFF's hold-harmless provision, since it will result in a higher level of funding for the District. However, there has been a recent change to the application of deficits that now includes applying deficits to all districts, including those in hold-harmless status.

The District expects to receive its calculated State apportionment revenue of \$156.9 million in 2019-20, less any deficit factor. Due to credit FTES declining less than the 1,000 FTES planned in the Adopted Budget, the District's ongoing revenue at P1 is estimated at \$143.9 million in ongoing funding with the hold-harmless temporary estimated at \$13 million. This revenue has been calculated based

upon the apportionment funding we received in 2017-18 plus COLA for the 2018-19 and 2019-20 fiscal years. Due to the additional year of hold-harmless funding approved as part of the State's 2019-20 budget, this same hold-harmless test for funding levels is anticipated to be applied through the 2021-22 fiscal year. After this time, districts will receive their apportionment funding based solely on the metrics of the new formula. This will be a significant concern for the District as it will result in a substantial revenue reduction unless the metrics related to the SCFF, in particular FTES, improve over the next two years.

As previously noted, non-resident revenue enrollment is experiencing real-time impact due to travel restrictions associated with the Covid-19 Pandemic Shelter-in-Place Orders resulting in a projected revenue decrease of \$900,000. Other local revenue impacts are expected, but given the uncertainty we are only recognizing an increase in transfers from the General Fund to other funds to support revenue decline.

Stability Fund

As of Adopted Budget, we estimated the projected Stability Fund at \$23.7 million. An estimated \$11.6 million to cover compensation adjustments and other negotiated items for 2019-20 was included as part of the projections, leaving the estimated Stability Fund balance at \$11.4 million at the end of the fiscal year. Due to changes discussed above, the estimated Stability Fund balance as of third quarter is \$15.2 million.

The Stability Fund is a one-time resource to temporarily offset future operating cost increases and potential revenue reductions in the short or long-term. Due to the rapidly changing economic situation related to the Covid-19 pandemic, it is certain that the District will face significant fiscal challenges in the next few years. The ability to utilize the stability fund will be essential in addressing budget reductions and allowing the District time to strategically plan budget directions while still offering the instructional and student support services needed by our students as well as a safe working environment for our faculty and staff.

District staff will continue to carefully monitor the state and local revenue trends and provide planning and recommendations to assist the District in meeting the fiscal and logistical challenges anticipated in the next few years.