



November 10, 2010

Dear Andy,

A couple of weeks ago, I sent a forecast for the community college outlook and while in the ballpark, we now have more official forecast to rely on. This afternoon, the Legislative Analyst's Office released its [five-year fiscal forecast](#) and, as expected, the state's budget situation is downright ugly.

The state's General Fund has a \$23.8 billion hole, which is made up of the impact of the current year imbalance (\$4.6b), drops in revenues from expiring temporary taxes and one-time transfers (\$9.7b) and scheduled increases in expenditures (\$10.2b). The minimum funding level for Proposition 98 is scheduled to *drop* by \$2.2 billion next year, as the "Test 1" guarantee takes over because of the decline in the state general fund.

For community colleges, next year looks to be a fairly significant challenge programmatically. Assuming no new state revenues (which would otherwise call for a Prop. 98 increase), funding available for community colleges **is likely to drop by \$255 million**.

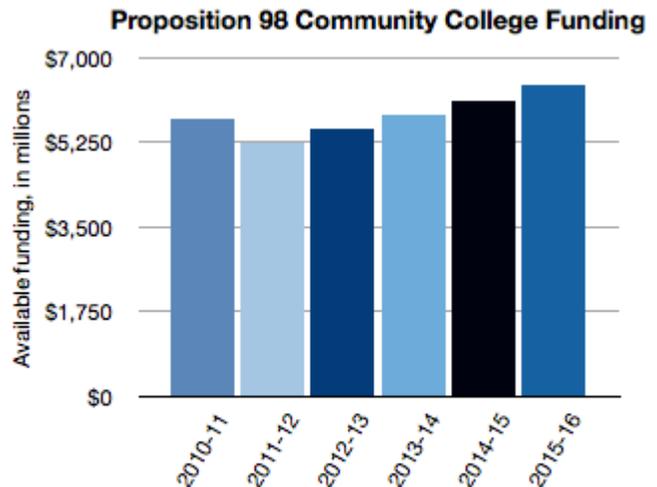
While that alone is a large number, we also must consider the fact that we have already spent \$129 million from next year through a deferral. While that number can be offset by "rolling" the deferral ahead into 2012-13, it makes it that much more difficult to fix the hole next year.

For this reason, the Legislative Analyst's Office encourages the Legislature to consider repealing the augmentations to Proposition 98 that were funded through a deferral into next year, which includes the 2.2% enrollment growth funding provided to community colleges. Districts should be cautioned that mid-year changes of some level are very likely, and the state is pretty much out of creative accounting options (i.e. more deferrals).

While I suggested a 20% likelihood of midyear cuts a couple of weeks ago, this latest news actually suggests that likelihood should be flipped to an 80% chance of budget changes before the year is over. However, I think the political support behind enrollment growth in community colleges reduces our exposure a little bit.

Five-year community college forecast (assuming consistent share of Prop. 98 and no significant new tax revenues):

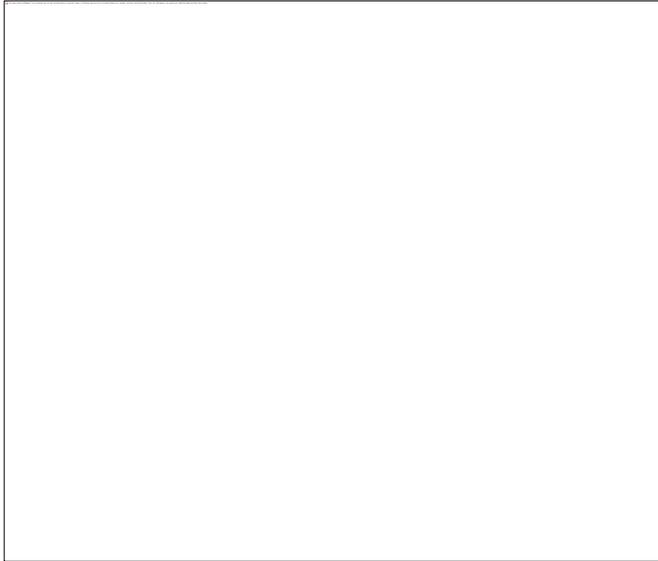
- 2010-11: 50% likelihood of mid-year cuts (Proposition 98 suspended)
- 2011-12: -\$254 million (-4.5%)
- 2012-13: +\$79 million (+1.5%)



Source: League projections, based on Legislative Analyst's Office California's Fiscal Outlook.

- 2013-14: +\$278 million (+5%)
- 2014-15: +\$303 million (+5.2%)
- 2015-16: +\$317 million (+5.2%)

Assumptions: Community college share of Prop. 98 11.5% in 2010-11 and 2011-12, declining to 11% for remainder of forecast period.



Now, while our forecast suggests that we might receive enough money for COLA and growth by 2013-14, this may not be possible if the state doesn't have enough cash to pay for it. The Legislative Analyst's Forecast shows a \$20 billion operating shortfall in four of the next five years, with it dropping to \$19 billion by 2015-16. Without a surprise economic boom that drives up revenues dramatically, it is extremely hard to see how the state can generate additional taxes, program cuts or a combination of the two that will fix this structural problem. This could put the issue of the "Proposition 98 suspension" on the agenda in each year, and nullify what has to be characterized as an "optimistic" projection for community colleges included above.

certainly have our work cut out for us.

I wish the news could be better, but we

Sincerely,

Scott Lay
President and Chief Executive Officer
Orange Coast College '94