RELEVANT BOARD POLICIES:

- **3100 Budget Adoption.** “Budget revisions will be brought forward for Board action as necessary, but not less than twice per year in January and June.”

- **3920,3930 Financial Stability, Fiscal Reserves.** “The College will designate and set aside appropriate fund reserves to support plans for long-term capital and operating commitments.”

- **5100 Compensation Philosophy.** “The Board has determined based on long-term budget projections, and other related budget data, that total compensation/benefits should not exceed 77% of the total operating budget.”
FINAL FY06-07 AMENDED BUDGET: General Fund
FINAL FY06-07 General Fund BUDGET

REVENUES:

• Tuition & Fees  \( \uparrow \) +$623 thousand, +2.7% adj. – credit-side enrollment up for Winter and Spring 2007
• Property Taxes  \( \leftrightarrow \) no significant change
• State Aid  \( \downarrow \) -$2.2 million – E.O.2007-3 and PA 17
• Other Revenue  \( \uparrow \) +$524 thousand – short-term investment income up, offsite location cost center transfers (offset by corresponding transfer expense)

= Overall downward amendment to revenue is  -$1 million

-1.6% change from January 2007 amendment
FINAL FY06-07 General Fund BUDGET

EXPENDITURES:

• Amended downward by $1.1 million, -1.7% change:

  • Salaries & Wages, and Fringe Benefits — MPSERS credit of $832 thousand, salary lag, hold on 50% of vacancies

  • Non-salary related expenses — lower heating costs, release of contingencies, offsetting adjustments between categories

  • Transfers — offsite location cost center transfers (offset by transfer revenue), additional contribution to Maintenance & Replacement Fund to help 07-08
FINAL FY06-07 General Fund BUDGET

NET RESULTS OF AMENDMENT:

✓ FUND BALANCE: $85K or 1.4% better than January Amended Budget

✓ 6/30/07 projected to end with $174,000 surplus, for total of $6.2 million
## Summary

<table>
<thead>
<tr>
<th>05-06 ACTUAL</th>
<th>06-07 AMEND #1</th>
<th>06-07 AMEND #2</th>
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<tbody>
<tr>
<td>Revenues</td>
<td>$ 63,193,382</td>
<td>$ 65,350,738</td>
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<td>Expenditures</td>
<td>62,907,643</td>
<td>65,261,835</td>
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<td>Excess Revenues Over Expenditures</td>
<td>$ 285,739</td>
<td>$ 88,903</td>
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<td>Fund Balance - Beginning</td>
<td>5,765,062</td>
<td>6,050,801</td>
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<tr>
<td>Fund Balance - Ending</td>
<td>$ 6,050,801</td>
<td>$ 6,139,704</td>
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<td>Fund Balance Percent</td>
<td>9.62%</td>
<td>9.41%</td>
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Target = 5% - 10% of Expenditure budget
PROPOSED FY07-08 BUDGET
No Change in Budget Principles, even with more budget uncertainty than in past years...

1. Budget must support Strategic Plans
2. Minimize/Offset Impact on Students
3. Avoid Overall Reduction in Staffing
4. Maintain Fund Balance/Reserves
Jan.’07: Initial Forecast for FY07-08 General Fund

- Initial Forecast was $2.4M deficit
- Key Budget Issues:
  a) Bargaining year for four employee groups
  b) MPSERS rate increase from 17.74% to 18.56%
  c) State Aid for 2006-07 and 2007-08 unknown
  d) Potential flattening of property value increases
  e) Enrollment trend also flattening
Jan’07 : Initial Forecast for 07-08

This forecast shows -$2.4M projected initially for FY07-08, and -$23M at the end of FY12-13, assuming millage renewal in 07-08, and before steps are taken to balance these budgets. It shows what would happen if current trends were to continue. MCC must implement a balanced budget each year.
PROPOSED FY07-08 BUDGET

BUDGET BALANCING STEPS=

COST CONTAINMENT

- Continued holds on filling vacant positions
- Lower MPSERS rate than originally issued (16.72% vs. 18.56%)
- Total non-salary related expenses reduced during budgeting process by $100,000
- Contingencies needed for state aid and retirement contribution cost uncertainty
PROPOSED FY07-08 BUDGET

KEY ASSUMPTIONS - REVENUES

• **TUITION & FEES**
  • 3.2% (inflation-level) rate increases on credit side included in budget
  • Offsite locations (Lapeer, Fenton, Howell, Clio) also expected to see 3.2% increase in revenues over FY06-07.
PROPOSED FY07-08 BUDGET

KEY ASSUMPTIONS - REVENUES

PROPERTY TAXES

- Up $0.7 million from 06-07 due to a 4.7% property value increase—lower than past 5%-6% trend.

- Millage Rate is not rolled back by Headlee this year, and stays at 1.9896
Property Taxes

- 1997/1998: $2,000,000
- 1998/1999: $4,000,000
- 1999/2000: $6,000,000
- 2000/2001: $8,000,000
- 2001/2002: $10,000,000
- 2002-2003: $12,000,000
- 2003-2004: $14,000,000
- 2004-2005: $16,000,000
- 2005-2006: $18,000,000
- 2006-2007: $20,000,000
- 2007-2008 Initial Budget: $22,000,000
- 2007-2008 Final Budget: $24,000,000
- 2007-2008 Final Budget 2006-2007: $26,000,000
PROPOSED FY07-08 BUDGET

KEY ASSUMPTIONS - REVENUES

- **STATE APPROPRIATIONS** –
  
  (NOT YET DETERMINED BY LEGISLATURE)
  
  • Executive Recommendation includes 2.5% increase…but no legislation yet
  • State still faces $1.5 billion budget deficit for FY07-08
  • MCC budget assumes funding equal to prior year initial appropriation of $14.6 million
  • Mid-year budget adjustments are inevitable
# State Appropriations Status

## FY2006-07 and FY2007-08

<table>
<thead>
<tr>
<th>State Aid - Operations</th>
<th>(in millions)</th>
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<tbody>
<tr>
<td>06-07 Original Base Approp.</td>
<td>$14.6</td>
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<tr>
<td>E.O. 2007-3 (Delay of 1/2 August pmt)</td>
<td>$(0.7)</td>
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<tr>
<td>E.O. 2007-3 (Cut)</td>
<td>$(0.8)</td>
</tr>
<tr>
<td>PA 17 Negative Supplemental (Delay of other 1/2 August pmt)</td>
<td>$(0.7)</td>
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<tr>
<td>Total enacted cuts to 06-07 state aid</td>
<td>$(2.2)</td>
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</tbody>
</table>

### Current Situation: 06-07 budgeted state aid

$12.4

### Budget Impact:

- **Worst Case:** delay of Aug'07 not paid in '08
  
  $$(1.3)$$

- **Best Case:** delay of Aug'07 paid in '08; 2.5% increase over '07 original
  
  $$0.4$$

- **Level of uncertainty**: $$(1.7)$$
MCC State Appropriations Revenue

Source: MCC Audited financial statements and budgets (as of June 2007)
PROPOSED FY07-08 BUDGET

KEY ASSUMPTIONS - REVENUE

- Total Revenues for 07-08 are projected to be $67.4 million, an increase of 4.8% from the final 06-07 budget
GENERAL FUND REVENUE SOURCES

Grants and Other
State Appropriations
Property Taxes
Tuition and Fees

1999/2000
2000/2001
2001/2002
2002/2003
2003-2004
2004-2005
2005-2006
Final Budget 2006-2007
Initial Budget 2007-2008

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100% 110% 120%
PROPOSED FY07-08 BUDGET

KEY ASSUMPTIONS-- EXPENDITURES:

Overall increase of $3.1 million or 4.8% over the final 06-07 budget.

• Salaries & Wages: +6% includes negotiated step and pay scale increases, replenishment of vacant position budget pool

• Fringe Benefits: +6.7% to account for health insurance and retirement contribution rate increases

✓ Total compensation = 77%, as required by policy

• Non-Salary: slight increase +0.5% due to necessary spending restraint
Initial General Fund Budget 2007-2008: Expenditures by Activity

- Salaries and Wages: 55%
- Fringe Benefits: 22%
- Contracted Services: 6%
- Materials and Supplies: 3%
- Rent, Utilities, and Insurance: 5%
- Transfers: 3%
- Capital Outlay: 0%

Operations/Communications: 6%
## PROPOSED FY07-08 BUDGET: General Fund

### SUMMARY

<table>
<thead>
<tr>
<th></th>
<th>05-06 ACTUAL</th>
<th>06-07 AMEND #2</th>
<th>07-08 INITIAL</th>
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<tr>
<td><strong>Revenues</strong></td>
<td>$63,193,382</td>
<td>$64,315,020</td>
<td>$67,414,299</td>
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<td><strong>Expenditures</strong></td>
<td>62,907,643</td>
<td>64,141,170</td>
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<td><strong>Excess Revenues Over Expenditures</strong></td>
<td>$285,739</td>
<td>$173,850</td>
<td>$184,024</td>
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<td><strong>Fund Balance - Beginning</strong></td>
<td>5,765,062</td>
<td>6,050,801</td>
<td>6,224,651</td>
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<td><strong>Fund Balance - Ending</strong></td>
<td>$6,050,801</td>
<td>$6,224,651</td>
<td>$6,408,675</td>
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<td><strong>Fund Balance Percent</strong></td>
<td>9.62%</td>
<td>9.70%</td>
<td>9.53%</td>
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</table>

Target = 5% - 10% of Expenditure budget
PROPOSED FY07-08 BUDGET

Planned Results:

- Balanced budget, with small surplus in general fund
- Continued commitment from General Fund to cover capital needs in maintenance & replacement fund
- No Reduction in Force
- Short-term savings achieved through position vacancies
- Intentional constraint on non-salary (discretionary) spending base
- Strategic Goals (AQIP process) and 7-year impact considered throughout process
PROPOSED “OTHER FUNDS” FY07-08 BUDGETS

Main Point is Impact on Operating Budget:

• Designated Fund—$2.1 million revenue budget
  (Scholarships, Student Enrichment, Copy Machines, Paid Parking, Designated Technology Fee)
  • $342,000 funded with General Fund budget (expense)

• Auxiliary Enterprise Fund--$639,000 budget
  (Catering, Vending, Bookstore, Computer Lab Printing, Lapeer Campus Auxiliary)
  • $332,000 net “profit” supplements General Fund (revenue)
Main Point is Impact on Operating Budget:

- **Debt Retirement Fund**—no General Fund impact
  - Millage Rate stays same, at 0.69 mill; Property taxes restricted

- **Capital Funds**—repair, upgrade of buildings, equipment, technology, vehicles ($100 million in net value)
  - Instructional Technology Fee = $1 Million per year
  - $1.8 million per year planned transfer from General Fund still needed; 07-08 transfer lowered to $1.3 million because of early transfer in 06-07

- $15 million in Series 2006 Bond Proceeds will fund projects through FY07-08
STRATEGIC INITIATIVES FOR 07-08: LINKED TO BUDGET PROCESS and to new AQIP METHODOLOGY
STRATEGIC INITIATIVES FOR 07-08

• Allocation for 07-08 is $270,000, including both AQIP and department level projects

• Department/Division level planning produces requests for annual funding

• Top Three AQIP Action Projects:
  1) Provide on-going, cross-functional training to develop all employees' professional skills.
  2) Cooperative education and experiential learning.
  3) Advising for degree completion and transfer students.
7-YEAR FORECAST
7-YEAR FORECAST

• Key Assumptions - Revenue
  – Tuition and fee revenue increases at 4.5% each year (impact of rates and enrollment)
  – Property tax revenue increases at 3% each year
  – 0.6410 Mill Voted Operating Millage is renewed for 10 years starting with FY08-09
  – State appropriations increase by 1% in FY08-09, and 2% each year thereafter
  – Other revenues increase by 2% each year
  – Total revenue increases by avg. of 3.5% each year
7-YEAR FORECAST

- **Key Assumptions - Expenses**
  - Salaries and wages increase by avg. of 4.8% each year
  - Fringe benefits increase by avg. of 8.3% each year
  - Other expenses increase by avg. of 3.1% each year
  - Total expenses increase by avg. of 5.2% each year
7-YEAR FORECAST

• **Summary**
  – Projected General Fund Deficit would be $32 Million at end of FY13-14, if current trends continued (Revenue growth of 3.5% vs. expenditure growth of 5.2%)
  – Based on an average projected gap of $5.5 million per year to be filled with budget-balancing solutions
  – Short-term savings and flexibility continues to be key
  – Long-term strategy of reducing compensation costs continues as focus has to be on controllables
### 7-YEAR OPERATING FORECAST (in millions), as of June 2007

<table>
<thead>
<tr>
<th></th>
<th>Amended Budget 06-07</th>
<th>Proposed Budget 07-08</th>
<th>Budget 08-09</th>
<th>Budget 09-10</th>
<th>Budget 10-11</th>
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<th>Budget 12-13</th>
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<tr>
<td><strong>Revenues</strong></td>
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<td>Tuition and Fees</td>
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<td>Property Taxes</td>
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<td>4.4</td>
<td>4.5</td>
<td>4.6</td>
<td>4.7</td>
<td>4.8</td>
<td>4.9</td>
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<tr>
<td><strong>Total Revenue:</strong></td>
<td>64.3</td>
<td>67.4</td>
<td>69.6</td>
<td>71.8</td>
<td>74.2</td>
<td>76.6</td>
<td>79.2</td>
<td>81.8</td>
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<td><strong>Revenue Increases:</strong></td>
<td>1.8%</td>
<td>4.8%</td>
<td>3.2%</td>
<td>3.3%</td>
<td>3.3%</td>
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<td><strong>Expenditures</strong></td>
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<td>17.6</td>
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<td>All Others</td>
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<td>16.7</td>
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<td>18.2</td>
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<td><strong>Total Expend:</strong></td>
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<td>8.3%</td>
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<td>4.7%</td>
<td>4.7%</td>
<td>4.7%</td>
<td>4.8%</td>
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<td><strong>Surplus/(Deficit):</strong></td>
<td>0.2</td>
<td>0.2</td>
<td>(3.3)</td>
<td>(4.3)</td>
<td>(5.5)</td>
<td>(6.8)</td>
<td>(8.3)</td>
<td>(9.8)</td>
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<td>(1.4)</td>
<td>(7.0)</td>
<td>(14.0)</td>
<td>(22.3)</td>
<td>(32.3)</td>
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</tbody>
</table>

*Note: the forecast illustrates pro forma data if current trends were to continue. The college is obligated to balance its budget each year and will take necessary steps to do so.*
CAPITAL FUNDING
FUTURE OUTLOOK:
Next Steps and
Key Issues for Consideration
Capital Funding

Funding Sources:

- $45 M Voted Bond Authority Passed June 2004
- -$15 M Series 2004 was spent from 2004-2006
- -$15 M Series 2006 to be spent by April 2008
  - =$15 M Remaining voted authority
  - +$13 M Commitment of Operating Funds
  - +$7 M projected from Student Tech. Fees
  - =$50 M Secured from now through 2011
  - $4 M pending approval from State Capital Outlay

Future needs will require ongoing deferral and continued requests for voted bond authority and state capital outlay assistance.
FUTURE OUTLOOK:
Key Issues

1. **0.6410 Operating Millage** request for voter renewal on August 7, 2007

2. **Reducing Compensation costs** – Long-term budget challenge remains to control rising expenditure levels

3. **Academic and Service Operations** continue to be studied for strategic fit; efficiency; feasibility

4. **State’s budget** – $1.5 billion projected deficit even after SBT is replaced in full

5. **2007-2012 Strategic Planning through AQIP** requires continuous improvement methods
Next Board Actions —

- **FY06-07 Audit Acceptance:**
  - Oct/Nov’07

- **FY07-08 Budget Amendment:**
  - Winter`08
MCC Board of Trustees
Committee of the Whole Meeting
June 18, 2007

Questions or Comments?
For More Information:
Details are Provided with Board Resolutions 1.54 and 1.56

Kelli Sproule, Chief Financial Officer
810-762-0525, Kelli.Sproule@mcc.edu