

Information Item

Subject: Financial Analysis of the Financial Position and Financial Condition of Gavilan Joint Community College District as of December 31, 2008

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State Fiscal Crisis

Citing a \$41 billion deficit spanning two fiscal years the Governor released his budget for FY 09/10 on December 31, 2008. The Governor proposed changes in revenues and expenditures that collectively would eliminate this historic deficit. For the past several months the state has focused on finding a budget compromise within the Legislature to solve a mid-year deficit for FY 08/09 and begin work to reduce a projected deficit for FY 09/10. Republicans and Democrats have been unable to agree on changes in expenditures and revenues thereby allowing the expenditures to continue to outpace revenues collected by the state. At some point this stalemate has to end. The deficits for both fiscal years will continue to increase until action is taken by the Legislature to realign revenues and expenditures. Community colleges like other governmental agencies dependent on state revenue can only sit by and wait until the Legislature acts and the deficit spending stops. At that time colleges will know the size of the state deficit that must be addressed. Until then the prudent course of action is to eliminate discretionary expenditures and formulate action plans that can be implemented to reduce total permanent fixed costs. Again without a target number to work toward it is difficult to determine how deep cuts should be.

The Governor's FY 09/10 Budget calls for the colleges to forego a 5.02% statutory COLA increase. On the positive side, the Governor is adding \$136 million in growth revenue for community colleges to provide more services to students. In years when growth is available it is possible under the right circumstances to offset base revenue reductions with earned growth revenue. Many colleges have announced reductions in their class schedules in order to reduce expenditures. Others believe they will exceed funded enrollment levels with the existing class schedules and reduced class offerings to prevent going over the amount that the state will pay to reimbursement them for the enrollment. Both of these situations leave a college vulnerable to achieving actual enrollment at a level that is less than what the state may actually pay. When that occurs colleges that have earned higher enrollment will be funded for that enrollment. Gavilan's approach is to keep the class schedule at the FY 08/09 level in hopes that other colleges will not achieve their full funding levels thereby allowing additional revenue to be available to pay Gavilan for enrollment in excess of the enrollment capacity numbers.

Impact on California's Community Colleges

The Governor's budget calls for a reduction in community college spending in the amount of \$332 million as a mid-year reduction in FY 08/09 revenue. The Governor included language in the Budget that indicates he is flexible on changes to that number and in one analysis the reduction is reported as being

only \$100 million. The Assembly and Senate both proposed mid-year reductions closer to \$100 million for community colleges. The highest level of reduction for community colleges so far was the amount of \$332 million. This size of a state wide reduction would reduce Gavilan's revenue by \$1.6 million. The most recent analysis issued by the State Chancellor's Office states that the Governor is now proposing that community colleges not receive the 0.68% COLA for FY 08/09. The COLA allocation was \$90 million statewide. The COLA revenue for FY 08/09 for Gavilan College was projected to be \$183,000, but was not included in the FY 08-09 budget.

For the past three years Gavilan has been experiencing substantial growth on a year-to-year basis. The additional revenue from growth enrollment was used to make substantial increases in operating budgets and to increase the number of full time faculty and professional support staff. As revenue begins to slow down or decline, Gavilan can easily reduce the total number of positions as employees retire or otherwise leave Gavilan's employment.

Categorical funding for the Extended Opportunity Programs and Services, CalWorks, Disability Resource Center and other programs that receive special revenue to provide services to students who meet certain eligibility criteria have not yet been targeted for changes in revenue. Typically, there are wide shifts in the percentage of reductions that will be applied to categorical programs. Those departments will be expected to reduce their budgets to absorb any reductions in revenue from the state. Departments that cannot reduce expenditures due to permanent employee costs will be supported in part by the general fund.

Gavilan College's Financial Condition and Position

There has been a lot of negative press about cities, public schools and other agencies that rely on state revenue having to lay off employees, dramatically reducing services to the community and in general having severe financial shortfalls that are hindering continuation of operating at existing levels. Gavilan College has been very actively managing its resources for a number of years. The news on a national and state level is causing great concern among all governmental agencies as well as the employees who work in those agencies who are witnessing, in many cases the first time, reductions in the work force due to lack of funding.

Gavilan College has become known for the manner in which the Board of Trustees manages and monitors the fiscal health of the district. Fiscal standards were approved by the Board of Trustees in 1998 and have been used each year to set expenditure limits as the Tentative and Final Budgets are prepared. The establishment of fiscal standards and enforcement of those standards has, over a period of years, strengthened the financial condition of the district. Extraordinary increases in revenues resulting from unanticipated enrollment growth in 2006 boosted the amount of funding available to pay for long-term obligations while at the same time causing increases in the unrestricted general fund reserve.

Gavilan has consistently taken quick action in response to events that could compromise the college's revenues or force increases in expenditures. The active management and control of the spending plan of

the college is a behavior that is rooted in the fiscal standards and has become a fairly routine practice. The result of the Board’s actions to actively control the financial condition of the district has placed the college in excellent position to manage its way through any fiscal crisis; even one of historic proportions as the current crisis is being called.

Gavilan’s financial strength has allowed it to calmly prepare for changes in revenues and to schedule reductions in expenditures in a measured and methodical approach. Certainly the college is subject to the same environmental factors that all other governmental agencies are. The difference is that through disciplined adherence to fiscal standards the college is starting in a very strong position as it now enters a period of falling revenues. To illustrate the effects of following defined fiscal standards, the college’s past five years of performance is displayed in Table 1.

Table I

**Gavilan Joint Community College District
Summary of Unrestricted General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Year 03/04 through FY 07/08**

	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Fiscal Year 06/07	Fiscal Year 07/08
Revenues					
State Revenues	\$ 4,998,257	\$ 6,335,994	\$ 8,548,019	\$12,895,591	\$12,708,359
Local Revenues	15,227,876	14,521,882	14,644,093	15,216,213	16,277,736
Total Revenues	\$20,226,133	\$20,857,876	\$23,192,112	\$28,111,804	\$28,986,095

Expenditures

Academic Salaries	\$ 7,607,309	\$ 7,570,806	\$ 8,158,323	\$9,147,352	\$ 10,561,132
Non-Instructional Salaries	3,525,992	3,586,124	4,011,469	4,385,980	5,176,230
Employee Benefits	3,118,077	3,285,953	4,152,595	4,213,359	4,860,536
Books and Supplies	347,124	356,957	444,358	479,043	630,488
Services and Other Operating Expenditures	3,509,565	4,021,951	4,336,808	5,320,722	5,031,244
Capital Outlay	239,125	192,209	237,766	230,771	313,182
Total Expenditures	\$18,347,192	\$19,014,000	\$21,341,319	\$23,777,227	\$26,572,812
Intra/Interfund Transfers Out	2,125,819	1,594,965	1,563,697	3,531,445	1,873,801
Intra/Interfund Transfers In	291,920				
Total Expenditures and Net Transfers	20,181,091	20,608,965	22,905,016	27,308,672	28,446,613
Net Change in Fund Balance	45,042	248,911	287,096	803,132	539,482
Beginning Fund Balance	\$1,666,310	\$1,711,352	\$1,960,263	\$2,247,359	\$3,050,491
Ending Fund Balance	\$1,711,352	\$1,960,263	\$2,247,359	\$3,050,491	\$3,589,973
Ending Fund Balance as a % of Expenditures and transfers	8.48%	9.51%	9.81%	11.17%	12.62%

To gain another perspective about the stability of expenditure allocations, the data in Table 1 has been converted to a percentage analysis and shown in Table 2. By reviewing the expenditure allocations as a percentage of total expenditures, it is possible to review the trend of expenditure behavior. Table 2 was prepared to show the changes in each expenditure category as a percentage of the total expenditures for each fiscal year. Table 2 illustrates that Gavilan has consistently achieved the requirements of the Board’s fiscal standards. There are three areas crucial to the long-term stability of the fiscal health of the college. First, salaries and benefits have been held to no more than 80% of total expenditures. This is a benchmark that is consistently used by colleges and to some extent by other governmental agencies. With services being provided by people the largest expenditure of a governmental agency will be salaries and benefits of employees hired to provide services. When organizations begin to see salaries and benefits increase above 80% the organization should take note and determine why that is occurring. Sustained operations where salary and benefit expenditures continue above 80% will force the organization to reduce costs in all other areas of the budget.

Table 2 has to be adjusted slightly to include a line item that shows the total percentage of salaries and benefits. The second important fiscal standard is maintaining a balanced budget. The college staff and Board of Trustees receive financial performance data on a monthly basis. Starting around January of each year college staff begin to submit budget modifications to realign revenues and expenditures. The main purpose of this practice is to maintain control over expenditures so that the college keeps

expenditures within the amount of total revenues available. The third important fiscal standard is the reserve level. The Board of Trustees approved a fiscal standard of 10% of expenditures. Gavilan's ending fund balance rose to 12.2% at the end of FY 07/08. This occurred primarily because the college received an extraordinarily large amount of revenue as a result of enrollment growth. The college expected enrollment in FY 08/09 to decline and therefore allowed the reserve to increase in anticipation of a decrease in revenue. In actuality enrollment has increased once again in FY 08/09.

Table 2

**Gavilan Joint Community College District
Summary of Unrestricted General Fund Revenues, Expenditures and Changes in
Fund Balance**

Fiscal Year 03/04 through FY 07/08

	Fiscal Year 03/04	Fiscal Year 04/05	Fiscal Year 05/06	Fiscal Year 06/07	Fiscal Year 07/08
Expenditures					
Academic Salaries	37.70%	36.74%	35.62%	33.50%	37.13%
Non-Instructional Salaries	17.47%	17.40%	17.51%	16.06%	18.20%
Employee Benefits	15.45%	15.94%	18.13%	15.43%	17.09%
Books and Supplies	1.72%	1.73%	1.94%	1.75%	2.22%
Services and Other Operating Expenditures	17.39%	19.52%	18.93%	19.48%	17.69%
Capital Outlay	1.18%	0.93%	1.04%	0.85%	1.10%
Financial Aid/Scholarships/Debt Service					

Total Expenditures	90.91%	92.26%	93.17%	87.07%	93.41%
Intra/Interfund Transfers Out	9.19%	7.74%	6.83%	12.93%	6.59%
Total Salaries and Benefits	70.62%	70.08%	71.26%	64.99%	72.41%
Salaries and Benefits plus transfers out	79.81%	77.82%	78.09%	77.92%	79.00%

General Comments about the Financial Position and Financial Condition of Gavilan College

Financial position refers to the agency’s year-to-year performance. Government agencies operate with a 12 month spending plan or budget. Each year there are variations in revenues and expenditures. There may also be changes in the external operating environment that are beyond the control of the governmental agency that impact both revenues and expenditures. The assessment of the financial position of a governmental agency is important when determining if the administration and the Board of Trustees are taking action as necessary to maintain control over expenditures and revenues so that undisrupted services can be provided to the community. A clear sign of an agency in trouble is when revenues decline and or expenditures increase and no action is taken by the agency to realign spending to coincide with available revenues. This practice results in an on-going structural imbalance and is the situation that has occurred on a state basis as Legislators sat on the sidelines keeping score of the on-going imbalance. The same can and usually does occur at local governmental agencies for at least a year or so before action is initiated to realign revenues and expenditures. The longer the delay to act to realign revenues and expenditures the more difficult it will be to make the changes. Changes needed increase over time as revenues and expenditures get farther out of alignment with one another. Changes made early can typically be very small on a percentage basis. It is always important to make adjustments as soon as possible to keep the situation from getting out of hand.

Reducing expenditures is a very difficult task for a governmental agency. The governing board and administration may want to wait until the signals clearly point to a condition when revenues are indeed declining and that no other recourse is possible. Next the individuals on the governing board need to be convinced that the declines are permanent. Once the agency reaches that conclusion, action plans will be formulated and expenditures will be reduced. A review of the financial position of a governmental agency reveals how quick and how well an agency is doing in response to changes in revenues and expenditures. Ideally, these changes should occur within the 12 month budget cycle.

Each year Gavilan plans for a balanced budget. There have been times when beginning of year planning information indicated that a deficit may occur. Through a review of the various planning assumptions there have been years when staff recommended that a budget with a small deficit at the beginning of the year be approved by the Board. This was done because of staff’s belief that making a permanent reduction in expenditures (usually by eliminating vacant positions) would be more detrimental to the college than waiting a few months to determine whether there would be increases in revenues that would allow the college to offset the deficit. Each year the deficits were eliminated through adjustments

in revenues and expenditures. As Table 1 shows, the college has been able to generate a surplus each of the last five fiscal years.

By adhering to the fiscal standards approved by the Board of Trustees and tying resource allocation decisions to the Strategic Plan the Gavilan College has maintained a stable pace of operations and has minimized the wide fluctuations in staffing levels, course offerings and other expenditures that tend to occur when a college engages in binge spending followed by a sudden contraction to realign revenues and expenditures. The state's habit of infusing colleges with large amounts of money in one year followed by reductions or very small increases in revenue in a subsequent year tends to promote the binge and purge behavior that is very difficult budget strategy to master. In this environment colleges have a difficult time planning for increases in capacity, changes in student support services and in preparing long term plans that support an educational master plan.

Gavilan's Approach to Financial Management

Gavilan's approach has been different in that it is not just conservative but it also projects changes in revenues and expenditures at least three years in advance. While the assumptions can never be accurate all of the time some assessment has to be made about the economic changes that may occur over the next three to five years. By taking a guess at what may happen, the college has been able to assume that revenues will decline, or that revenues will rise substantially in the short term and then decline as the national economy stalls. Each of these assumptions causes the administration to recommend various budget changes to the governing board when preparing the annual budget. On a long-term basis the college has been preparing for an economic downturn. No one can say for sure when an economic downturn will occur. However, historically all periods of economic expansion has been followed by periods of economic contraction. Only the timing of the contraction is unknown.

As Gavilan College was reaping the benefits of extraordinary increases in enrollment revenue, the Board of Trustees made several important commitments that can now be reversed to provide Gavilan with substantial reductions in expenditures on an immediate term basis and a long-term basis:

- 1) In FY 04/05 there were concerns being expressed by the faculty and the administration that there were not enough full time faculty to accomplish all of the tasks that are the responsibility of the faculty such as curriculum development and modification, development of student learning outcomes and a number of program assessment activities that would provide the college with the benefit of having strong academic programs to attract new students. The Five Year Full Time Faculty Hiring Plan was developed to help address a critical shortage of full time faculty. The plan has been implemented with four years of the plan's recommendations being implemented over a three year period. As a result of increasing the number of full time faculty Gavilan College has 13 faculty positions in excess of the minimum Faculty Obligation Number (FON) mandated by the State of California. The FON is the lowest number of faculty a college can have without being assessed a financial penalty.

During a period of economic slowdown the college has the ability to let the positions in excess of the FON go unfilled. By adding these positions over the past three years the Board of Trustees has the opportunity to reduce net salary expenditures of approximately \$1.1 million. As faculty members retire the Board can forego the full-time faculty position and use the salary savings to lower total permanent expenditures. The net savings of \$1.1 million is slightly less than 4% of total unrestricted expenditures.

- 2) Other professional support positions were also added over the course of the past five years. The change in total number of positions charged against the unrestricted general fund is shown in Table 3.

Table 3

	Unrestricted General Fund Positions					
	Actual FY 03/04	Actual FY 04/05	Actual FY 05/06	Actual FY 06/07	Actual FY 07/08	Budget FY 08/09
Employees						
Faculty	57.37	57.08	60.35	66.5	71.7	73.3
Professional Support Staff	57.93	53.43	55.25	56.79	69.85	70.73
Confidential/Supervisors	15.1	17.1	17.1	17.1	17.65	17.65
Administrators	7.25	6.3	7	8.6	8.6	7.55
Total Permanent Employees	137.65	133.91	139.7	148.99	167.8	169.23
Students						
Credit FTES	3,968	4,065	4,071	4,701	4,895	
Non Credit FTES	594	640	640	490	645	
Total FTES	4,562	4,705	4,711	5,191	5,540	

Professional support staff, confidential/supervisors and administrator positions can remain vacant as these positions become open, due to attrition, with the savings being applied to reduce overall expenditures. Table 3 illustrates the change in the number of permanent employees (expressed as Full Time Equivalent employees) that has occurred since FY 03/04. For comparative purposes the number of Full Time Equivalent Students is also shown to give a sense of the change in the volume of students that has occurred since FY 03/04. As stated previously, salaries and benefits should be 80% of operating expenditures. As revenue declines it is important that employee positions remain unfilled in order to keep salaries and benefits as close to 80% of total expenditures as possible.

- 3) Diversification of enrollment across several new academic programs gives Gavilan more flexibility when determining how to allocate resources. The college uses three separate

organizations as contractors for law enforcement and carpenter training programs. Over 800 Full Time Equivalent Students (FTES) are generated in the law enforcement academies and in the carpenter's apprenticeship program. These programs give the college the opportunity to flex its FTES in a way that ensures the majority of its enrollment is funded by the state. As an example, in FY 08/09, Monterey Peninsula College (MPS) needs 100 additional FTES from the law enforcement program. Gavilan College plans on exceeding its enrollment cap by at least 100 FTES. By allowing MPC to use the FTES that would otherwise come to Gavilan, Gavilan is able to save \$250,000 in money that it would have otherwise paid out for the instructional costs of that FTES. The law enforcement training and carpenter's apprenticeship programs are being mentioned because they offer Gavilan great flexibility and help it maintain total enrollment levels by manipulating the amount of FTES that will be received from either of those organizations.

- 4) Other Post Employment Benefits (OPEB) has been funded by the college making deposits in an irrevocable trust fund. The fair market value of Gavilan's investment is between \$4.6 and \$4.8 million. Even though the college has what it believes is an amount close to the actuarial cost of the total liability for the pool of retired employees invested in liquid assets it still pays \$600,000 annually for the out-of-pocket costs of medical benefits for retirees each year. Additionally, the college pays in 1.5% of payroll to the irrevocable trust to set money aside for existing employees who will eventually vest in the medical benefit program and receive benefits upon retirement. The college continues to make the payments because equity markets have been so turbulent that it is difficult to know what the rate of return will be on the invested assets. So far the college has actually lost money on its investments as the bond and equity markets collapsed over the past five months. Nevertheless, by having these assets available the college can take any of several different actions to move costs that would otherwise be paid out of the general fund against the irrevocable trust. Through allocation of costs to the trust fund the college can immediately save as much as \$3 million in any one fiscal year. Below are a few of the options available to the Board of Trustees should it decide that it is necessary to reduce total general fund expenditures:
 - a. Pay all medical benefit costs from the OPEB trust. The **savings per year is \$2.1 million**. This is the amount paid out each year for employee benefit costs. All employee benefit costs can be charged to the trust fund until those assets are exhausted. There is at least \$4.6 million available in the trust fund.
 - b. Curtail the pay-as-you-go amount of the retired employee medical costs. This is a savings of **\$600,000 annually**. The trust fund balance would decline in any year that this option is used as the trust assets would be this annual cost instead of paying the cost with general fund money.
 - c. Curtail the **\$350,000** contribution made each year to pay for the costs of existing employees who will vest in the retiree medical benefit program. The savings is \$350,000. This payment is not required and is made to prefund the cost of the benefits of existing employees who will eventually receive these benefits. There is no legal requirement to pay this cost each year.

- d. Any combination of the above. At most the college could save \$2.1 million plus \$600,000 plus \$350,000 for a total of **\$3,050,000 a year**. This amount is more than 10% of the college's total unrestricted general funds and is just a little less than two years of the amount of the proposed reduction for community college which is \$1.6 million a year.

Based on the review of the college's past five fiscal years of operating results, it can be concluded that the college has adjusted well to changes in revenues, and has been able to quickly allocate resources to increase services offered to support students throughout the district. The \$803,132 increase in fund balance in FY 06/07 resulted from the college generating a significant amount of enrollment that was funded by the state. In that year other colleges were having difficulty reaching their base enrollment numbers. Gavilan grew at a rate of 13% that year. To maximize the college's chances to be funded for all enrollments that were generated the college shifted its summer session enrollment to the FY 06/07 year. The situation was considered a one time opportunity available to the college and it is not expected that type of situation is likely to occur again anytime soon. The college was positioned in a way that allowed it to maximize the state revenue available and was fortunately able to capitalize on this unusual circumstance. The extra revenue was intentionally used to allow the fund balance to rise. This was a defensive move intended to protect Gavilan from a downturn in enrollment that was expected in FY 07/08.

As it turned out Gavilan had increased enrollment again in FY 07/08 but the state did not have the money to pay for the enrollment. In summary, Gavilan acted in a manner that maximized the resources made available from the state. In anticipation of a downturn in the economy the college retained the surplus in the fund balance and that money is now available to offset revenue shortfalls that may occur this year or in any future year.

The evaluation of an organization's ability to operate within available revenues gives a good sense about the financial position of the organization. This is a short term viewpoint or perspective that gives Board Members and others a quick assessment about an organization's ability to live within allocated resources. A second major evaluation factor is the financial condition of the college. A conclusion regarding the financial condition of a college speaks to the college's long-term strength.

Financial Condition

When discussing the financial condition of a governmental agency the evaluation perspective is a long-term point of view. The dominate question is whether or not the agency has the reserves, financial position and ability to survive several detrimental financial changes in its revenues or substantial increases in its expenditures in a very short time period. When reaching a conclusion about the financial condition of the governmental agency several ratios can be used to support a conclusion. Ratios are only indicators that can be used to compare one governmental agency to another. Comparative analysis is helpful but it cannot by itself be used to conclude an agency will survive a downturn or not. In order to survive any economy calamity the governing board and administration need to act in a manner that responds to the factors that will affect the financial position of the agency. In Gavilan's circumstances,

the college is well positioned to survive even the most horrific doomsday projections. Here are the factors that lead to the conclusion that Gavilan College has a sound financial condition.

1. The review of the financial position and past performance for the past five fiscal years shows that the governing board and administration are actively managing the financial resources of the district. Deficits do not occur and when expected at the beginning of a planning cycle is eliminated through actions that raise revenue or reduce expenditures. The governing board exercises superior oversight to ensure the college protects its reserves and makes reductions in expenditures in a timely manner to bring the budget within balance.
2. Reserves total 28 % of operating expenditures. Gavilan College has \$3.5 million in unrestricted fund reserves and \$4.6 million in liquid assets in the irrevocable trust fund.
3. Gavilan can quickly eliminate large amounts of expenditures without consuming its reserves:
 - a. The college formed an Expenditure Reduction Task Force to identify expenditure reductions that could be made to offset reductions in state revenues that have been anticipated for FY 08/09. The Task Force has identified \$830,000 in reductions that can be implemented in FY 08/09. This amount is 2.8% of expenditures. The reduction needed to remain in line with state revenues is anywhere between \$183,000 and \$1.6 million.
 - b. The college can stop the payment of \$350,000 being made into the irrevocable trust fund for existing employees who will be eligible for medical benefits when they retire. This cost can be eliminated without any financial consequence to the college.
 - c. Purchase of a facility that is currently being rented is another option being evaluated by college staff. The college received an appraisal on a property that is being used as a satellite facility. Annual rent is \$168,000. The appraised value is \$2 million. Measure E funds could be used to pay for the cost of the building. Rent payments of \$168,000 would no longer be necessary thereby saving \$168,000 from the operating budget.
 - d. Attrition of faculty positions through retirement will save \$1.1 million. As previously discussed the college has the ability to allow up to 13 faculty positions to go unfilled. This savings could be applied to reduce total expenditures over two perhaps three years.
 - e. Other changes in expenditures are possible. The large increases in revenues that occurred between FY 05/06 and FY 07/08 have allowed the college to make significant improvements in the support of all departments across the college. Savings in a wide range of expenditures is available because many departments are still adjusting to these increased resources. At least \$150,000 to \$200,000 in savings is available.

Summary

Gavilan College has used the past four years to prepare for this financial downturn. Gavilan has been able to secure permanent revenue increases as a result of large enrollment increases. Expenditures have

been held in check and the short term reserve (unrestricted general fund) and the long-term reserve (OPEB irrevocable trust fund) have been increasing steadily over the past five years. At the same time Gavilan has expanded its class schedule, developed new programs and greatly expanded off site activities to better suit the needs of the communities it serves. Total FTES has risen 4,562 to 5,540 an increase of 972 FTES and a percentage increase of 21.4%.

The economic slowdown affecting the national and state economy is widely expected to result in a reduction of revenue being available to community colleges. Gavilan has been operating with an assumption that it would need to make permanent reductions in expenditures of \$800,000 in FY 08/09, \$800,000 in FY 09/10 and another \$900,000 in FY 10/11. The Governor's Budget for FY 09/10 is actually allocating additional resources for community colleges. Because of the contradicting indicators regarding what can be expected it is recommended that the college proceed with its plans to eliminate \$800,000 for FY 08/09 and also target additional reductions of \$800,000 for FY 09/10. It may be that the reductions will not be necessary and if that is the case the recommended reductions would not be implemented. Until a firm direction becomes clear it is prudent to plan on reductions.