# BUDGET ALLOCATION TASKFORCE
## RECORD OF MEETING
**Tuesday, March 11, 2008**
**3:00-4:30 p.m.**
**Oakdale Chamber of Commerce**

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Present: Deborah Campbell, Judith Lanning, Connie Mical, Adrienne Peek, Kathy Schultz, Teresa Scott (co-chair), Nancy Sill, Carrie Sampson (recorder)

Absent: Rosanne Faughn, Rich Rose, Jim Sahlman, Joan Smith (chair), Ken White

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Ms. Scott commented that due to extenuating circumstances there were no notes taken at the February 11 and the February 29 meetings. Ms. Scott also noted that she invited the Chief Business Officer of Sierra College to discuss Sierra's allocation model; however, today's meeting conflicted with Sierra College's Board meeting.

**<u>Budget Allocation Model Summary Sheet - Revised</u>**
Ms. Scott reviewed the recommended changes to the Budget Allocation Model Summary Sheet. The Summary Sheet has two attachments now, one showing the growth calculation formula and the other showing the calculation formula for full-time faculty replacement costs. Regarding the faculty replacement cost formula, Ms. Scott stated that we do not use an average of all full-time faculty in the calculation because this puts the placement higher than most new faculty will start. Instead, Central Services does a two-year comparison of new faculty placements in order to best estimate the cost of a new position. The Taskforce agreed that this document is now finalized.

The Taskforce discussed the current practice of allocating the budgets to each site (Colleges and Central Services) and holding each site responsible for the proper distribution of their money among the units. It was affirmed that this was the best means of distributing the three budgets and that it encourages accountability for how the money is spent. It was noted that Jane Chawinga, Internal Auditor/Budget Analyst, does an excellent job of tracking salary and benefit budgets for all three sites.

Ms. Scott reported on the current year 2007-08 property tax shortfall, which will mean a deficit in revenue of about $1 million to our District. She stated that community colleges are not backfilled by the state for property tax shortfalls. She said the shortage was caused by two counties misreporting their property taxes. The shortfall will be absorbed by the colleges statewide.

After further discussion, the consensus was that no major changes were necessary to the current Budget Allocation Model, but that ongoing communication and education about the budget is very important in order to maintain transparency in the budget allocation process. Ms. Scott noted that District Council has typically been the arena for information and discussion about the District's Budget. It was noted that changes in leadership for the constituency groups remain a challenge to understanding the Budget. The District's Budget is very complex and involved, and it takes time and a commitment to understand it. The Taskforce discussed various options for ongoing communication. These included keeping the Fiscal Services website Budget information updated, online posting of the Budget FAQS document and updating it as new questions arise, online posting of the District Council minutes, and asking the Chancellor to issue District Council Highlights Districtwide after the meetings. It was reported that MJC has all the various committee minutes posted online at the President's website. It was suggested that Columbia College and Central Services committee minutes also have centrally linked committee minutes in order to make locating them easier. Ms. Scott stated that she is always willing to attend any College committee meeting wishing to have an update on the Budget.

**Next Steps**

A Subcommittee, consisting of Judith Lanning, Adrienne Peek, Kathy Schultz, and Nancy Sill, will prepare a Draft Executive Summary to be reviewed and finalized by the Taskforce at its April 8 meeting. The finalized Executive Summary and the Budget Allocation Model Summary Sheet will be given to the Chancellor for presentation to the District Council. The topic of our reserve limit and whether or not to apply it to unrestricted and restricted funds will take a considerable amount of research and analysis, and so should possibly be charged to a different group. Also, it was felt that the topic of whether or not to centralize or decentralize certain services was an assignment for a different committee.

**Next Meeting/Agenda Items**

The meeting of March 28 will be used by the Subcommittee to prepare the Draft Executive Summary. The next regular meeting of the Taskforce will be Tuesday, April 8, 2008, 3:00-4:30 p.m. at the Oakdale Chamber of Commerce, 590 N. Yosemite Avenue, Oakdale.

## BUDGET Q&A

The question-and-answer section of the record of the meeting is included as a resource for the Budget Allocation Taskforce. It contains various questions and answers from Budget Allocation Taskforce meetings.

*1. Does the real estate market affect our property tax income?*
Yes. The state does not back-fill community colleges for lost property tax income. K-12 does receive a back-fill for property tax shortfalls.

*2. Why is there always money in the Ending Balance? Shouldn't this money be spent on instruction?*
The Ending Balance (Line 38) is a carry over balance which is added to the next year's budget Beginning Balance (Line 1) to cover prior year encumbrances and to balance the subsequent year budget. Money is encumbered once a purchase order is initiated; however, the District cannot pay these purchase orders until after delivery of the items. For example, activities/items purchased (encumbered) in 2006-07 prior to June 30 using 2006-07 funds but received after June 30, must be paid for in the 2007-08 Budget.

*3. Why is there so much money in the Designated Reserve? Isn't 3% of the budget all that is required?*
The state mandates a reserve of at least 5%. If the reserve falls below 5%, the state will begin monitoring the fiscal operations and stability of the district. The state will monitor all transactions and budget activity. If the district should fall to 3% or below, the state could send financial officers to run the district. Should our District go onto a Watch List, we will not be able to get a favorable bond rating, which means higher taxes on general obligation bonds. Ms. Scott distributed a memo dated October 25, 2005, from the California Community Colleges System Office mandating a minimum prudent unrestricted general fund reserve of 5%.

*4. How will our unfunded retiree benefits liability affect our bond rating?*
It does affect our bond rating. Lending institutions question how this liability is being addressed. If we do not have a plan to address this liability, our bond rating will drop again, increasing taxes for the general obligation bonds.

*5. What will happen to this Taskforce when the new Chancellor arrives?*
The Board does support this committee and will probably inform the new Chancellor of this. This Taskforce has been created in response to accreditation findings, and the Accreditation Review Team will be interested in the work of this committee.

*6. Do we see that mortgage foreclosures will have an impact on our [YCCD] revenue?*
Taxes will still need to be paid but re-valuing properties at a lower rate may have an impact and applied deficit.

*7. What is the most accurate way to determine comparisons with other colleges as it relates to total employee compensation and efficiency in terms of staffing numbers?*
The taskforce believes that comparing faculty numbers using FTO reports to establish comparisons vs. FTES would give a more accurate reading. Ms. Scott agreed to investigate comparisons for leadership and classified groups.

*8. Why does the travel and activities/training portions of the Central Services unrestricted budget other operating expenses total approximately $460,000?*
Ms. Scott will analyze the expenditures for those categories and report back at the next meeting [5/21/07].

*9. How is the 5% reserve calculated?*
It is calculated against the unrestricted general fund expenditures. At one time it was calculated against unrestricted and restricted expenditures; however, this was changed a few years ago by the state System Office. Line 36 of the YCCD Budget is not compounded yearly. Only the Board of Trustees can change the percentage.

Without acceptable justification and a plan to reinstitute a proper amount, the State Chancellor's Office will intervene if the reserve falls below 5%.

*10. Do salaries paid with restricted funds receive COLA?*

It depends. In some budget years the state awards COLA to restricted programs, and some years it does not. Sometimes only certain programs receive a COLA, and sometimes the COLA for restricted programs is different than for those in the General Fund.

*11. How does the District deal with grant-funded positions if it's possible the funding could be lost at some future point?*

District may start a dialog with the college to be sure staff understand the consequences of a position funded with restricted funds. However, if the college chooses to do this, the District will not interfere. Dr. Smith noted that grants need to be tied to the overall college plan. In this case, they become a vital part of the college and alternative funding for the position would need to be found. It was noted that grants ending in two years or less may hire short-term contract employees as temporary staff.

*12. District was able to transfer $750,000 into the Retiree Liability Fund in 2006-07 even though no money was budgeted. Where did this money come from?*

The transfer came from year-end savings. Early in the fiscal year, MJC was anticipating a $1.5 million deficit in their 2006-07 part-time/overload (PTOL) budget, so they began to reserve money by asking managers to stop spending from their budgets. Central Services also began reserving funds in order to assist MJC, if necessary. At the end of the year, MJC balanced their budget and did not overspend by $1.5 million, and the savings was transferred to the Retiree Liability Fund.

*13. What is the process for deciding how year-end savings are spent? Should a committee be established for this purpose?*

The colleges and Central Services establish budget priorities each year through their respective budget committees. Districtwide priorities are also established each year. This process begins with the Chancellor's Cabinet and further dialog and discussions take place at District Council. As the fiscal year progresses, the colleges and Central Services independently monitor their budgets to determine and identify budget shortfalls or possible savings. Prior to fiscal year end, the colleges "sweep" their unencumbered balances to one account in their respective budgets to be used towards their unique budget priorities. In some years, year-end operational savings are used to cover over expenditures in the part-time/overload budgets. Savings accruing in the Central Services budget are generally used for unfunded Districtwide priorities. Subsequent to the fiscal year end expenditure cut-off date, all remaining unspent funds in the general unrestricted fund become part of the ending fund balance for that year.

*14. How are year-end savings created and why?*

Past practice at the colleges was to consolidate resources, also known as "sweeping accounts," in April in order to reserve money. With so many different accounts, this is the best method for the College Budget Managers to guarantee that accounts are not overspent. Any savings not needed to cover encumbrances in the next year can then be used to fund college priorities established by the EMP. Contrary to rumor, Central Services does not "sweep" college accounts. Central Services does set deadlines for closing the books.

*15. Why do we fund college growth the year following when it is achieved? Most districts fund growth up front, so the colleges can use that money to increase FTES.*

Until 2005-06, it was the practice at the District to fund college growth up front, and then pull the money back in January if growth did not materialize. However, when the colleges not only didn't grow in 2004-05, but had a decline, the deficit they experienced was severe. The decision was made to fund growth after it was achieved until the colleges stabilize.

*16. How do organizational charts affect the budget?*
District organization determines the District account number structure. Services organized under a certain administrative unit will be assigned account numbers under that responsibility code.

*17. How did the allocation formula of 85% MJC and 15% Columbia come about for new instructional moneys?*
Historically, MJC has earned 87% of the total FTES for our District, Columbia College 13%. In order to accommodate economies of scale for a small college, the percentage was adjusted to 85% MJC/15% Columbia. Should at some point in the future the actual ratio change dramatically, then this allocation split would need to be changed as well.

*18. How did the allocation formula of 58% MJC, 15% Columbia, and 27% Central Services come into being?*
Historically, the percentage of expenditures at the three sites has been approximately 58% MJC, 15% Columbia and 27% Central Services. This is based on the unrestricted General Fund Actual Budget. This formula was mostly used for equalization money before it was permanently rolled into the base allocation.

Added 3/11/08

*19. When the Colleges delete a faculty position, can the budget for that position be reallocated as discretionary funds?*
The Colleges are allocated a specific amount of money each year, which includes their salary and benefit budgets. Money is distributed to the College units at the direction of the President. If the President decides to delete a position, then the money (salary and benefits) reserved for that position can be reallocated to other College uses. However, should the President ever decide to reopen the deleted position, the College would need to retrieve the funds from within their budget. They will not receive an augmentation to add back a deleted position. It should be noted that this differs from a position that is left unfilled for a fiscal year, but is not permanently deleted. An unfilled position still exists in the budget. The College may redistribute the salary of an unfilled position, but they are not allowed to reallocate the position's benefits.