BUDGET ALLOCATION TASKFORCE
RECORD OF MEETING
Monday, May 21, 2007
3:00-4:30 p.m.
District Conference Room B

Present: Rosanne Faughn, Judith Lanning, Curtis Martin, Connie Mical, Rich Rose, Teresa Scott (co-chair), Joan Smith (chair), Ken White, Carrie Sampson (recorder)

Absent: Nancy Sill, Larry Steuben, Deborah Campbell

Dr. Smith called the meeting to order stating that today's discussion will include the *California Community Colleges Sound Fiscal Management Self-Assessment Checklist* and the scheduling of future meetings. After review of the draft meeting notes of April 17, the committee approved the summary notes as amended.

Dr. Smith informed the committee that Tom Kimbering, the Chief Business Officer of Ventura College, will be coming to the area to meet with her and, hopefully, Ms. Scott regarding budget allocation models. Mr. Kimbering is an expert in the field and often acts as a consultant to districts wanting to revise their allocation models. Dr. Smith thought it would be helpful to invite Mr. Kimbering to meet with the Taskforce in an advisory role if that were the consensus. It was stated that this may be useful after the study phase is completed for discussing best practices.

<u>California Community Colleges Sound Fiscal Management Self-Assessment Checklist</u>

Ms. Scott said the Self-Assessment Checklist is a document that was created shortly after Compton College was placed on the Watch List by the State Chancellor's Office. Now districts are supposed to self-assess using the checklist in order to confirm their financial stability. If a district is placed on the Watch List, state auditors will require the district to answer these questions prior to their onsite visit. Following is the discussion of the checklist:

1. *Deficit Spending* – Yes, our District does practice deficit spending. This is when the fund balance from the prior year is used to cover expenditures of the subsequent year. Ms. Scott said ideally revenue and expenditures should balance. However, our District would need at least a couple of years to change the practice of deficit budgeting.
2. *Fund Balance* – YCCD's fund balance is not increasing, and it won't until we discontinue deficit budgeting.
3. *Enrollment* – Both colleges have enrollment management committees. There is also a Districtwide Enrollment Management Committee. Jane Chawinga monitors trends between the first period enrollment report (P-1) and the final report in order to help identify our status. Ms. Scott remarked that some districts routinely overestimate their FTES in the first and second periods (P-1 and P-2) causing a potential deficit in the growth funding to be applied throughout the state. There is also a post final report in October that allows districts to report missed FTES, if necessary.
4. *Unrestricted General Fund Balance* – As discussed earlier, our District does maintain a 5% reserve on unrestricted expenditures.
5. *Cash Flow Borrowing* – Our District does not practice interfund borrowing. However, in the past, the district issued short-term notes called TRANS (Tax & Revenue Anticipation Notes). TRANS issuances are a form of short-term borrowing used to smooth out cash flow problems that arise when disbursement needs do not match the timing of revenue flows. The District has not issued TRANS in several years.
6. *Bargaining Agreements* – There is always extensive review of revenue sources during collective bargaining. Also, when the District files its quarterly financial reports with the State Chancellor's Office, the revenue source for bargaining agreements must be identified.

7. *Unrestricted General Fund Staffing* – This can be a problem with restricted grant programs that use grant money to fund positions. Restricted fund employees have the same displacement/seniority rights as unrestricted fund employees. This can create a problem if the grant program loses its funding. Our District funds salaries and benefits above the 85% state average.
8. *Internal Controls* – Jane Chawinga is our Internal Auditor. We also contract with an external auditing firm. Internal controls are designed to safeguard the assets of the District. The District's external auditors have had no findings relative to the District's internal controls.
9. *Management Information Systems* – This area has been challenging with the conversion to Datatel, but it continues to improve.
10. *Position Control* – We need to do more work in this area. Position control is not integrated into Datatel. This is especially a problem with the part-time/overload budget.
11. *Budget Monitoring* – Currently, we revise the budget once after it is approved, but this may occur more often in the future. The budget was augmented for salary and benefits after the bargaining agreements were approved. Measure E paid off the District's long-term debt.
12. *Retiree Health Benefits* – Yes, our District completes an actuarial study every two years per the General Accounting Standards Board (GASB) requirement. We have a plan for covering the cost of benefits for retirees, but it needs to be documented. We have a $43 million liability, but we have a reserve of $13 million from previous savings towards this liability.
13. *Leadership/Stability* – As everyone knows, there has been quite a bit of turnover in the administrative leadership at YCCD.
14. *District Liability* – Our District is a member of the Valley Insurance Program JPA which handles most of the claims against the District.
15. *Reporting* – Yes, we have external audits made every year that go to the Board in December and are subsequently filed with the State Chancellor's Office. Ms. Scott said it is best to stay with the same audit firm and merely rotate the personnel within that firm to do the audits. That way the auditors are familiar with our financial systems without becoming too comfortable with our staff. The external audit firm is selected via the RFP process. Our District has not had any substantial findings in many years. All college districts are required to comply with the 50% law, which originated as a K-12 law. It requires that 50% of expenditures be used in classroom salary and benefits. However, the criteria are quite difficult for colleges to meet and are not consistent with the 75/25 rule for determining what qualifies as instructional salaries. There is a movement at the state to revise the 50% law at least as far as community colleges are concerned. Ms. Scott also noted that California is the only state with this type of law.

Future Meetings

Dr. Smith noted that Larry Steuben, Columbia College Academic Senate President, has retired, effective September 2007. Kathy Schultz is the new Columbia College Academic Senate President. However, she will be unavailable to attend most summer meetings. Under these circumstances, Dr. Smith feels it is not advisable to schedule any more meetings of the Taskforce until a Columbia College Academic Senate representative can be established. Either Mr. Steuben will need to agree to attend through the summer, or Ms. Schultz will need to be available to attend. Dr. Smith said she is not willing to allow decisions regarding budget allocation to be made without representation from the Columbia College Academic Senate.

Q&A:

The question and answer section of the record of the meeting was commended. It was agreed that this section is a valuable reference. Additions to the Q&A section made at the May 21, 2007, meeting are underlined.

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 district. The state will monitor all transactions and budget activity. If the district should fall to 3% or below, the state would 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 less Measure E money. 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.

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 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. 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%.

Next Meeting/Agenda Items
Dr. Smith said she will talk with Larry Steuben and/or Kathy Schultz to see which one will be attending the Taskforce during the summer. Work on scheduling the next meeting can begin after she has spoken with them. Ms. Schultz will need to be brought up to speed on the information covered in meetings so far prior to any discussion of change. Ms. Scott also said that since the Taskforce wants to meet often, it would be best to decide on a preset schedule. A request for agenda items will be emailed to the committee prior to the next meeting.