# BUDGET ALLOCATION TASKFORCE
## RECORD OF MEETING
**Tuesday, October 2, 2007**
**3:30-5:00 p.m.**
**District Conference Room B**

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| Present: | Deborah Campbell, Rosanne Faughn, Judith Lanning, Connie Mical, Teresa Scott (co-chair), Jim Sahlman, Kathy Schultz, Nancy Sill, Joan Smith (chair), Ken White, Carrie Sampson (recorder) |
| Absent: | Adrienne Peek, Rich Rose |

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Ms. Scott called the meeting to order and asked that members make a commitment to remain on this committee until its work of making recommendations concerning the current budget allocation model is completed, regardless of their terms on the various constituency groups. Ms. Scott said it is imperative that members have the history provided by the earlier meetings in order to make decisions that may affect our budget. She announced that Curtis Martin has resigned from the committee because his term as Academic Senate President has ended. Jim Sahlman, new MJC Academic Senate President, said he cannot guarantee that he will attend all meetings, but that Adrienne Peek, MJC Academic Senate Budget Liaison, has agreed to stay on the committee past her term, if necessary. Kathy Schultz said she will make the commitment beyond her term. Ken White said he is on the taskforce at the direction of MJC President Rich Rose because he is the chair of the MJC Budget Planning Committee. Once a Vice President of Administrative Services is hired, Dr. Rose may decide to have this person replace him on the committee. Nancy Sill said she would try to remain on the committee.

Ms. Scott asked if there were any changes to the meeting summary of May 21, 2007. There were none.

**Recap of What the Committee Has Covered**

*Current Allocation Model* **–** Ms. Scott stated that the budget allocation model previously distributed needs some modifications. The revised document should be available at the next meeting.

*Major Object Code Budgets* **–** Ms. Scott briefly reviewed the major object codes for unrestricted revenue and expenditures. She noted that the majority of revenue comes from the state, which includes the general apportionment, Partnership for Excellence (PFE), and lottery. Additionally, local revenue from property taxes, enrollment fees, tuition, and interest income make up the rest of the revenue with only a small amount from the federal Department of Forestry going to Columbia College programs. Unrestricted expenditures show that 88% of our budget goes towards compensation, leaving only 12% of the total budget for operations. Ms. Scott said this ratio is consistent with other community college districts.

*Restricted Budgets* **–** The restricted revenue mostly comes from the state for such categorical programs as Basic Skills, Matriculation, DSPS, EOPS, CalWORKs, etc. YCCD also has a number of federally and locally funded programs. Restricted expenditures were 50% compensation and 50% operations in 2006-07. The District needs to be cautious when funding salaries with restricted budgets. Permanent employees in restricted programs have the same rights as any other permanent employees. Should funding be lost, the position would have to be absorbed into the General Fund unless a Reduction in Force (RIF) action is taken, which could cause a lay off of employees with the least seniority. Ms. Scott said historically our District avoids RIFs as a budget control device.

*SB 361* **–** Ms. Scott reminded the committee that SB 361 is the new funding formula used for community colleges, effective January 2007. It replaces Program Based Funding.

**General Fund Final Budget 2007-2008**

Ms. Scott distributed the 2007-2008 Final YCCD Budget. She discussed the budgeting assumptions. The first assumption is no growth. Already both MJC and Columbia are showing an increase in enrollment for Fall; and, therefore, augmentations for growth will be made later. COLA will be held in a contingency account pending the outcome of negotiations. District funds the cost of step-and-column increases for the colleges from COLA. This was not always the practice. At one time the colleges and Central Services were expected to fund their own step-and-column increases through attrition. However, this became too much of a drain on the operational budgets. Step-and-column increases were approximately $600,000 this year. The step-and-column increase is calculated each year. Medical insurance premium increase must be budgeted. If the rates do not go up, then there will be a surplus in the budget. State law requires that we set aside money to pay our unfunded retiree liability. YCCD must establish an irrevocable trust by June 30, 2008, in order to comply with GASB regulations. An actuarial study will establish the amount to be transferred annually, and the trust will be overseen by a board or committee governed by the Brown Act. Actuarial studies are required every two years. Once the principal in the trust reaches a high enough level, the interest income will help reduce the transfer amount needed. District will contract with an investment banker to monitor the investment of the trust funds. In the future, accreditation teams will scrutinize our retiree liability funding.

**Sound Fiscal Management Self-Assessment**

Ms. Scott informed new members about the use of the Sound Fiscal Management Self-Assessment Checklist document. Districts should periodically use the checklist to self-assess their financial stability.

**Next Steps**

Dr. Smith said now that the informational aspect of the committee has been completed, this Taskforce needs to begin the work of analyzing our current Budget Allocation Model and deciding if modifications need to be made. However, before starting this process, members need to survey their respective constituencies and gather information on concerns, perceptions, and recommendations about the District Budget to be discussed at the next meeting. Discussion focused on many of the frequent rumors and perceptions expressed by the college community, including Central Services' budget is larger than most districts; Columbia College should receive extra funding as a small college; MJC receives less than their entitled share of funding in order to subsidize Columbia; if the colleges supported certain services, such as Facilities and/or Information Technology, they would have better customer service; etc. As an example of decentralizing certain services, such as IT, it was noted that the cost of software licenses, maintenance and support as well as additional salaries and benefits would have to be supported by the college budget. Generally, centralizing services used by both colleges is more cost efficient than duplicating the services at each college. It was suggested that we compare our District services to services supported at other community college districts.

The following is a composite of questions that might be used to survey the various groups:

- Does the current budget allocation system adequately support your program? The college? The students?
- What specifically works well? What specifically does not work well?
- How would increased resources to your program positively affect the college?
- What aspects of the current budget allocation system would you like to change in order to better serve our students? What would you not want changed?
- Which services do you feel are better handled at the District level? Which at the college level? Why?
- Do you feel the current budget allocation system is a transparent process? If not, where do you see a need for more transparency?

**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 October 2, 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 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%.

<u>*10. Do salaries paid with restricted funds receive COLA?*</u>
<u>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.</u>

*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.

**Future Meetings**

The next meeting will take place Tuesday, October 30, 2007, 3:30-5:00 p.m. at a location in Oakdale. Members may provide information from their constituency groups at this meeting, if available. Additional meetings are scheduled for November 13 in Modesto and December 11 in Oakdale.