

BUDGET ALLOCATION TASKFORCE
RECORD OF MEETING
Tuesday, October 30, 2007
3:30-5:00 p.m.
Oakdale Chamber of Commerce

Present: Deborah Campbell, Rosanne Faughn, Adrienne Peek, Jim Sahlman, Kathy Schultz, Teresa Scott (co-chair), Nancy Sill, Joan Smith (chair), Carrie Sampson (recorder)

Absent: Judith Lanning, Connie Mical, Rich Rose, Ken White

Dr. Smith welcomed Adrienne Peek, the Budget Liaison for MJC Academic Senate. Dr. Smith reported that Chancellor Roe Darnell has recommended that this committee also study the 5% reserve on the unrestricted balance. For an example, she said this committee might recommend that an ideal reserve should be 5% of the unrestricted and restricted fund balances. After discussion, it was determined that the committee should rely on the expertise of Ms. Scott. As the Chief Business Officer for the District, Ms. Scott can advise on what an adequate reserve is for a District this size. Dr. Smith distributed a three-page document that can be used as an aid in working on a budget allocation model. She reviewed the work done so far by the committee, presented some questions concerning our current allocation model, listed some accountability factors, and made some suggestions of what a good budget allocation model might be.

Ms. Scott reviewed the current allocation model and current budget details for the benefit of new members. She discussed the importance of FTES and enrollment management on the budget. Ms. Scott reminded the committee that their commission is to review the allocation of new money, such as for growth, which our District has not had for more than two years due to declining FTES.

Central Services Organizational Charts

Ms. Scott distributed Central Services organizational charts. She said Chancellor Darnell has made some proposals regarding the reorganization of Central Services. There have been discussions to reinstate the Office of the Vice Chancellor for Educational Services. The organizational chart will determine budget allocations for the Colleges and to Central Services. For instance, services coming from departments on the Central Services organizational chart, such as Facilities Operations and Security, will be budgeted under Central Services even if the services are at the Colleges. An example of a decentralized service is Research, which was once centralized under the Office of the Vice Chancellor for Educational Services. Now each College and Central Services has a Researcher, and the College Research budgets are located within the College budgets while the Central Services Researcher is budgeted in Central Services. Ms. Scott noted that the Columbia College Business Office and Security are budgeted under the College budget; however, MJC Business Office and Security are budgeted under Central Services. Ancillary operations such as Food Services and the Bookstore operate on independent retail budgets and have no general fund allocation. She further noted that centralizing operations where possible is more cost efficient. Any discussion of restructuring should include streamlining the process while retaining cost efficiency. Regarding decentralization, it is important to remember that once funds are broken down and allocated to the College budgets, the College may have more control over these services, but they will also have less flexibility should money become an issue. It is also important to properly identify the problem as a service availability problem or a personnel problem. In the later case, decentralization will not provide a solution.

Budget Allocation Review 2006-07 Update

Ms. Scott reviewed the current allocation model, the 85/15 split for new money, rolling prior year base allocations, augmentations for step-and-column salary increases, breakdown of Central Services operating expenses, etc. She said if members need a refresher on SB 361, she will address it at the next meeting. Ms. Scott reminded the

committee that the College Presidents are responsible for allocating their College budgets and are accountable for any deficits that may occur.

Constituency Survey Results

Dr. Smith asked if there were any preliminary findings regarding constituency surveys. Mr. Sahlman and Ms. Schultz stated that faculty complaints include lack of transparency in the allocation process, poor communication, and trust issues. However, there was nothing specific, mostly just perceptions on the part of faculty. Dr. Smith said communicating the budget allocation process for the Colleges should be the responsibility of the College President. She said she would make this one of her goals. It was stated that there is a perception that Columbia College receives less customer service support because of its distance from Modesto. It was further mentioned that some people at MJC consider Columbia College's operation too expensive, noting the higher ratio of administrators to classified staff. Dr. Smith said that Columbia's organization is different from MJC because it is a small rural college. However, it provides a valuable service in that it educates people who would not otherwise receive an education unless they left the area. She also reminded the Taskforce that the money available for reallocation is a very small part of the budget. The majority of funds goes to salary and benefit compensation with any unspent funds at the end of the year going to College priorities. There was discussion concerning Facilities Operations, which has its budget at Central Services but most of the services are at the Colleges.

Next Steps

Dr. Smith stated that at the next meeting the committee will discuss the guiding principles for a budget allocation model. She said the Taskforce needs to decide what type of product they want to come from this committee. Perhaps a Budget Allocation Model presented in a simple, clear, bulleted format would be the desired product. Also on the next agenda will be an item to discuss what the ideal reserve limit would be. For the next meeting, Dr. Smith said she also intends to have more specific discussion on what the expectations of a new model should be, what services should be centralized and which decentralized, and how to deal with equity among the three sites. Dr. Smith said the Taskforce also needs to determine a timeline for the completion of this work, for instance, the end of Spring 2008 semester.

Future Meetings

The next meeting will take place Tuesday, November 13, 2007, 3:00-4:30 p.m. at MJC West Campus, Yosemite Hall, Room 205.

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.