BUDGET ALLOCATION TASKFORCE
RECORD OF MEETING
Tuesday, November 13, 2007
3:00-4:30 p.m.
MJC West Campus, Yosemite Hall, Room 205

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

Absent: Rich Rose, Jim Sahlman, Ken White

Ms. Scott stated that due to the limited time for today's meeting, she would move through as much of the agenda as possible. She said the reserve limit will be discussed at a later meeting after she has had time to confer with other budget managers.

Current Cost of Education 2005-06

Ms. Scott reviewed a document distributed at the last meeting on Current Cost of Education for 2005-06. This document is compiled by San Joaquin Delta College from all the community college districts' 50% Law and CCFS 311 reports. These reports are submitted to the state annually. The document shows how YCCD compares with the rest of the state community college districts regarding dollars spent per FTES. The report is broken down by restricted and unrestricted and unrestricted only instructional and noninstructional salaries and benefits and operating expenses. For the most part YCCD is above the statewide average, especially with regards to instructional expenses. Ms. Scott noted that on pages 12 and 13 costs are for education before and after exclusions. The exclusions would include such things as lottery money and new equipment. An inquiry was made regarding why YCCD has such low noninstructional costs. Ms. Scott said one possible reason is the fact that YCCD has a history of not laying off employees during difficult budget years. Therefore, costs are cut in operational budgets, mostly for noninstruction. At YCCD we have a tradition of using more restricted moneys for operational costs. When asked why YCCD benefits are so far above the state average, Ms. Scott said YCCD does have one of the better benefit packages. She said overall our District is in good shape in comparison to other districts.

Budget Allocation Basic (Guiding) Principles

Ms. Scott quickly reviewed the guiding principles of a good budget allocation model as distributed by Dr. Smith at the last meeting. She emphasized that in creating a budget allocation model we should make it easy, make it transparent, and make it adaptable. She asked if there were any questions.

Budget Allocation Model and Formulas - Revised

Ms. Scott distributed the YCCD budget allocation model and formulas revised per SB 361 funding. She noted that the primary budgeting committee is the Chancellor's Cabinet, which includes both College Presidents. She said the College split for new instructional funds is 85% MJC and 15% Columbia. This is based on the fact that historically MJC earns about 87% of the FTES and Columbia earns about 13%. By allocating 15% to Columbia, it addresses the economies of scale for a small college. The other formula used for new money that is not for instructional purposes only is 58% MJC, 15% Columbia, and 27% Central Services. This percentage is based on the approximate percentage of expenditures at each site. Ms. Scott further stated that some allocations are determined by the state. Attachment 2 of the document shows the various state allocations for 2006-07 and the basis for determining the amount that goes to each site. She noted that Scheduled Maintenance is allocated to Central Services; however, most projects are at the Colleges. The state approves all our scheduled maintenance projects. Facilities makes recommendations to the College Presidents for needed maintenance. Ms. Scott stated that the base budget is determined by prior year balances. The only new money that has been received in the last few years is COLA, because the college enrollment has been in decline and no growth money has been received from the state. Categorical program budgets are generally set by their contract and are not determined by previous balances.

FTES – Enrollment growth money is given by the state when colleges grow above their last reported FTES. The state sets a rate that they are willing to fund. The College Presidents then determine how much their Colleges can grow, and they work toward that growth. It does not need to match the state's rate. Up until the Colleges started to decline, growth money was funded up front. Once they begin to show growth again (probably next year), then Ms. Scott said they will revert to the practice of funding the growth up front in September and pulling the money back in January if no growth is obtained. Ms. Scott said both Colleges have Enrollment Management Committees. There is also an Enrollment Management group at the Districtwide level. These groups are responsible for analyzing FTES and enrollments and advising the College Presidents.

COLA – Ms. Scott said the COLA is set by the state. There is some debate over whether COLA is an entitlement to salary raises or if it should be used to cover inflation in general. Just as employees are affected by inflation, the District is also hit by these increased costs. Energy cost increase is a good example of inflation hitting the District budget. Usually COLA money is used to cover the cost of step-and-column increases, and the rest is held in a contingency account pending negotiations. Ms. Scott said that often categoricals are not included in the COLA, so their salary increases must be absorbed by their existing budgets. She said District Council is the group that approves how much COLA money is spent prior to negotiations.

FTO – Full-Time Faculty Obligation is driven by the District's credit FTES. The number of full-time faculty is calculated by the state. The District will receive a deadline in order to comply. The College Presidents decide how many new faculty they need within the state's mandate. FTO does not involve the 85%/15% split, but rather is disbursed based on College need as determined by the Presidents. The College budgets are augmented for the additional faculty positions based on a formula. If the faculty person hired is more expensive than the augmentation, then the President must adjust the College budget to compensate. Generally, hiring a full-time faculty person relieves costs in the part-time overload budget offsetting the deficit.

<u>Next Steps</u>

The committee will continue looking at the Budget Allocation Model and Formulas document at the next meeting. There should also be discussion on what items should be looked at more closely. It was also suggested that the committee look at other districts' allocation models.

<u>Next Meeting/Agenda Items</u>

The next meeting will take place Tuesday, December 11, 2007, 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.

Added 11/13/07

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.