

DISTRICTWIDE STRATEGIC PLANNING & BUDGET COUNCIL TASK FORCE REPORT

At its meeting on July 1, 2009 the Districtwide Strategic Planning and Budget Council (DSPBC) approved the formation of a Task Force with the following charge:

Analyze the current budget system and communications, and make recommendations to help build trust and understanding of the budget system.

At the July 1 meeting of the DSPBC several issues were mentioned for the Task Force to address. Those included but were not limited to:

- Accuracy of information
- Explanation of the 50% Law
- Distribution of equalization funds
- Accuracy of ending balances
- Distribution of ending balances
- Over-budgeting
- What makes an FTES
- How best to disseminate information

At the July 1 meeting several issues were mentioned that are not listed above. While each was important, some of them did not seem to be covered by the charge that was given to the Task Force and hopefully can be addressed in some other venue.

Accuracy of Information

The data in the District's Adopted Budget for the last four years were checked against the data submitted to the State Chancellor's Office either in Forms CCFS-311 or CCFS-320. All this information is now submitted electronically and in all cases the data in all documents were consistent with each other. In addition the independent District Contract Auditor checks this data and verifies the accuracy.

50% Law

The Task Force reviewed the District's submittal for the 50% Law for the past two years. This submittal is also reviewed by the independent District Contract Auditor. In addition the Task Force reviewed the guidelines used by the Auditor for analyzing the District's submittal. The District's percentage is over 55% which is among the highest in the State. A question was asked as to whether or not tutors were counted in the computation for the 50% Law. It is recommended that this question be included with the FAQ's that are recommended below.

Equalization funds

In the three year period beginning with 2004-05 the District received in excess of \$5 million in equalization funds. These funds were distributed directly to the two colleges in proportion to their FTES with none of the funds provided to District Services or to Districtwide. The colleges included these funds with all their other allocations and distributed the funds to all the various programs and services provided at the colleges. The colleges did not track the equalization funds separately.

Ending Balances

The District’s ending balance as shown in the formal budget brought to the Board of Trustees for adoption was checked against the ending balance shown in the official documents submitted to the Chancellor’s Office in Sacramento and in every case the two documents were in complete agreement with each other. However, for the last several years the District’s actual ending balance has been much larger than projected in the Adopted Budget. To some degree it is to be expected that the actual ending balance will be larger than the projected. There will always be many common occurrences in the four budget areas that cause the ending balance to be larger than projected. For example purchases will be initiated that are not fully completed by the end of the fiscal year. Funds remain in the ending balance that must be used to complete these purchases. In addition some collective bargaining issues will be in progress and not completely resolved and some funds will remain in the ending balance to cover these commitments. On June 30, 2006 these two items increased the ending balance by almost \$4 million. Yet, after accommodating these two commitments, there was still over \$4 million of uncommitted ending balance. In the three year period beginning with 2004-05, the ending balances were larger than one would expect under normal circumstances. This is primarily caused by the fact that the four budget areas, that is, Grossmont College, Cuyamaca College, District Services, and Districtwide distribute their total allocation in expenditure accounts with no funds budgeted in a reserve and/or holding account. The only exception to this is the District’s Contingency Reserve of approximately \$5 million. Certainly the unanticipated ending balances have allowed the colleges to do some important things that they might not have been able to do otherwise. Or it allows them to cover some necessary costs that would otherwise have been covered by reducing budgets in other areas.

The practice of budgeting all available funds is not unreasonable. The District Allocation Formula as approved by the Board of Trustees indicates that the four budget areas will retain all balances remaining at the end of the year. However, if the four budget areas know and clearly expect to have some funds remaining at the end of the year, then it begs the question of transparency. In some years the fiscal uncertainty mandated that the four budget areas operate with very conservative practices. This was especially true in 08-09. However it would appear that in most years some funds were placed in an expenditure account when it was highly unlikely that the funds would be spent during that year. The idea of this concept is reinforced by the fact that in some years the budgets for the discretionary accounts (non-salary) were increased by a large percentage from the actual expenditures from the previous year. This gives the appearance of a practice that is sometimes called ‘over-budgeting’. Because of this practice, the actual ending balance as shown in the chart below has been increased by millions of dollars over the projection during the past four years.

ENDING BALANCE DATA – UNRESTRICTED GENERAL FUND

	04-05	05-06	06-07	07-08	08-09
PROJECTED ENDING BALANCE	\$2,919,357	\$3,355,761	\$3,655,617	\$4,780,317	\$5,025,083
ACTUAL ENDING BALANCE	\$13,177,806	\$13,343,904	\$12,667,742	\$7,942,719	

It is assumed that the practice of allocating all funds to an expenditure account is used so the four budget areas will have maximum flexibility as they operate throughout the year. If the funds were

placed in a contingency account, then presumably each area would need Board approval to transfer the funds to an expenditure account. With the anticipated budget disaster for 09-10 and 10-11, it is likely that the budgets in each area will be reduced to a degree that this past budgeting practice will be impractical. However, for the future it would be worth providing account numbers to the budget areas which could be used as holding accounts. The new accounts could be clearly identified as reserve funds and available later in the year for transfer to expenditure accounts without Board approval. These special account numbers would be especially valuable in the discretionary areas such as hourly, supplies, and other operating expenses.

Ending balances in salary accounts for permanent employees are a little more difficult to accommodate. Vacancies will occur on a regular basis and if they are not filled in a timely manner, then funds will be left in that account at the end of the year. With the early retirement incentive program many of the vacated positions will not be filled. If the funds are deleted from the 09-10 budget corresponding to those vacancies, then the unused funds showing at the end of the year may be less than usual. For the future it might be worth considering a practice where, based on history, each budget area projects the expected vacancy rate and reduces the salary and benefit accounts by that amount. This can be done by budgeting the salaries and benefits for all approved staff and then budgeting a negative amount corresponding to the expected vacancies. If each budget area included a negative amount for potential salary and benefit savings, this would help reduce the inordinately large unanticipated ending balances that have occurred in the past.

Having holding accounts in the discretionary areas would at least signal that except for emergencies, it can be expected that most or all of these reserve funds will be added to the ending balance at the end of the year. If any of the four budget areas have a large unanticipated ending balance, it might be worth considering a practice of capturing some percentage of this balance and transferring it to some needy portion of the budget. One area that immediately comes to mind is the unfunded liability for medical benefits for current and future retirees. If one of the colleges wants to save part of their allocation for some relatively large capital outlay project, then it would probably be expedient to transfer the savings to the Capital Outlay Fund where they could be reserved for a specific purpose.

Please be reminded again that for the next two years it may not be feasible to implement any new suggestions and it may even be that some existing agreements will have to be ignored. The budget dilemma facing every community college district for the next few years will call for all the creativity that anyone can muster. In fact it is very likely that additional cuts for the 09-10 year will occur in early 2010. It is almost impossible to accommodate the uncertainty that exists in California at this time.

FTES

The basic definition of a Full Time Equivalent Student (FTES) is one or more students who attend a class or classes for 525 hours. However this basic definition is only used for noncredit classes and for credit classes that meet on an irregular basis and for open-entry open-exit classes.

For the Fall and Spring semesters it is assumed that classes meet for a total of 35 weeks or 17.5 weeks per semester. If a student is in attendance for 15 hours per week for 35 weeks, that would be a total of 525 hours (15 times 35 = 525) and would generate one FTES. For the ease of administration the District is allowed to count the enrollment on one designated day each semester and assume the students will be in attendance for the whole semester. For most summer classes and other classes that meet for less than a semester, a census day is designated and it is assumed that any

students enrolled on the census day are in attendance for the whole class. In all cases 525 computed hours equals one FTES.

For 2008-09 a credit FTES is funded at a rate of \$4,564.83 per FTES. Noncredit FTES are funded at two rates. Noncredit-CDCP FTES are funded at \$3,232.07 and other noncredit FTES are funded at \$2,744.96. Noncredit-CDCP courses involve Career Development and College Preparation. The rates for 09-10 will be the same as for 08-09. For 09-10 it is almost certain that no growth in FTES will be funded. In fact, it is expected that the apportionment funding for FTES for 09-10 will be reduced. However, rather than reduce the rate per FTES, the District will be allowed to reduce its FTES by an amount corresponding to the reduction in funding. It is usually considered prudent to have some unfunded FTES. This is especially desirable in years when growth funds are available and if it is likely that some districts will not use all of their growth allocation.

Improving Communication and Building Trust

Implementing the recommendations involving Ending Balances or something similar to those given in this report should help eliminate some of the concerns about the District's budgeting practices. Any improvement in transparency will build trust in the budget documents that are produced at every level.

It is suggested that new managers who have budget responsibility should be given some standardized training in budgeting and in the budget system.

The Task Force recommends that a list of Frequently Asked Questions (FAQ's) be posted on the District's web site. A staff person could be designated to receive questions. This person could review the questions and consolidate those that seem to overlap. In addition the person could find the answers to the questions and submit them to the webmaster for posting. A few suggested FAQ's have been listed at the end of this report.

The Task Force believes that more extensive use of open forums could be used to communicate information to the staff. A listing of forums that occur on a regular basis could be posted on the web site and additional forums could be advertised and utilized as needed.

E-mail is also an important tool for disseminating information. The e-mail distributed by the Chancellor Miles on July 2 was cited as a good example of communicating relevant information on a timely basis.

Employee groups could help in the communication process by forwarding important e-mails and other documents to their constituents. Some employees will be more likely to read a notice if it comes from their leaders. In addition managers and employee group leaders could post notices and other documents on bulletin boards in each area.

Suggested FAQ's

1. Are tutors included as Instructional Aides in the computation of the 50% Law?
2. Why are District Services and Districtwide listed as two separate budget areas?
3. Does the District's Contract Auditor check the number that is submitted for satisfying the Full-Time faculty obligation?
4. Does the District exceed the required number for the Full-Time faculty obligation and if so, by how many?
5. Will the requirement to meet the Full-Time faculty obligation be in place during 09-10?

6. Does each Budget Manager receive a monthly report showing year-to-date budget information for their area of responsibility?
7. Is each of the four budget areas allowed to keep any funds remaining in their accounts at the end of the year?
8. How is the relatively smaller size of Cuyamaca College considered in the Budget Allocation Formula?
9. With the current State Budget, several Categorical Programs will receive significant cuts in their budgets. Will each program be required to make those cuts or will the unrestricted General Fund absorb some of them?
10. By how much are the Categorical Programs being cut?
11. If staff positions in a Categorical Program are eliminated will the impacted employees be allowed to 'bump' into other programs?
12. Some Federal funds are being used to reduce the cuts in certain programs. Will similar funds be available during 10-11?
13. Will the District be funded for growth in FTES during 09-10?
14. Is the District receiving a Cost Of Living Adjustment (COLA) for 09-10?
15. Will the District follow the current District Allocation Formula for the 09-10 Fiscal Year?
16. If student fees are increased will the District benefit financially from the increase?
17. How many people must approve a Purchase Order before it can be processed?
18. What is the plan for replacing the staff who retired under the early retirement incentive program?
19. When grants or other dedicated income is obtained by the District and an 8% indirect charge is included, what happens to the indirect charge?
20. If a grant is administered by the Auxiliary does the Auxiliary receive an indirect amount of 4% and does the District receive an indirect charge of 8%?
21. The District Allocation Formula distributes funds to the two colleges based on FTES. A blended rate per FTES is used. What is a blended rate and why is it used?
22. Are the funds set aside for the bargaining process held at the colleges or in a central District account?
23. How was the State funds to help achieve parity and for office hours for part-timers spent?
24. Would it be expedient to convert some current noncredit courses to fee-based Community Service courses?
25. In the District Allocation Formula, some revenue and expenses are split on an FTES basis and other times the split seems to be 50/50 or on some other basis. What causes the difference and when does it occur?

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