RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
BUDGET ALLOCATION AND PLANNING REVIEW COMMITTEE – WORKGROUP

Meeting Notes – May 11, 2011
Members Present: Peter Hardash, Paul Foster, Norm Fujimoto, Steve Kawa, Jeff McMillan, Jose Vargas, Thao Nguyen and Nga Pham

Guest Present: Steve Eastmond, Raymond Hicks, and John Zarske

Members Absent: Gina Huegli

Peter Hardash opened the meeting at 2:45 p.m.

Topics Discussed:

Budget Allocation Model and Other

Mr. Hardash arrived late due to phone conference with Mr. Harris regarding allegations of the algorithm for FTES conversion in Datatel overstates FTES by about 3%. Mr. Hardash confirmed with Ms. LeTourneau that we've set our own algorithm in our Datatel system.

Mr. Kawa's perspective on the model is that a model will not be fully complete and we need to improvise as we go on.

Dr. McMillan is troubled by the rejection of the recommendation from the BAPR Workgroup to move to the new SB361 Revenue Allocation Model for FY 2011-12 Tentative Budget when BAPR Committee delegates the Workgroup to work on the new model. The Committee should have some confidence in the BAPR Workgroup recommendation when the head of Fiscal at both colleges is part of the workgroup.

Ms. Pham suggests that we need to have our own document in writing of the SB361 Revenue Allocation Model even if it is in DRAFT format.

Mr. Eastmond suggests that we should have what are the strongest arguments why we should have a new model including the current model pros/cons and the new model pros/cons.

Mr. Hardash does not understand some of the model questions (below) and needs to ask Mr. Didion about them. Some questions have been applied in the current model.

Mr. Didion sent questions via email to Mr. Hardash about the proposed new budget allocation model:

- Although our discussions of "the model" usually focus on the allocation of resources, I'm not sure that's really where the action is. Allocating revenue under any model is a formula-driven process and it most often takes place before any expenses are incurred. **Current model is the resource allocation model-no formula driven-fixed cost (black hole), new allocation is also the resource allocation model-formula driven model-based on size of campus and FTES basis.** The heavy lifting comes in the form of budget administration throughout the fiscal year. **Mr. Hardash opinion in the current allocation model is that the colleges lack administrative oversight of reviewing budgets on special project and categorical programs.** Ideally the approach taken in the budget administration would be consistent with the philosophical basis of the allocation model. My concerns about decentralizing fixed costs pertain to how we will administer the budget throughout the year – and more importantly – at the end of the year if allocations to one or more of the cost centers don't cover expenditures. **The new allocation will no longer have fixed cost or discretionary cost. The colleges can identify it that way if they chose to. The new model will allocate the portion of the dollar, so how the colleges spends it is up to them.**

- Right now, despite its flaws, our model holds the individual cost centers harmless for over-expenditures. **The over-expenditure of the adjunct faculty account is the major problem of the current model.** Although that can be a disincentive to good stewardship, it also provides a more proportional approach to budget cuts and revenue increases. **Mr. Hardash is not sure about this question. Mr. Fujimoto thinks that this question relates to the discretionary cost % when we have to make budget cuts or revenue increases. In our current model, if our FON went up, we may have to lay-off classified people to hire more faculty. The new allocation model decentralizes the spending decision.** For me, the key issue isn't how the dollars will be allocated at the start of the fiscal year – it's how the deficits/**surpluses** will be handled at the end of the year. I gave a couple of examples at the last BAPR meeting and I can assure you that this is a prime concern for the employee unions. Here are a few questions for the workgroup to ponder:

  - How exactly will a college cover a year-end deficit? **Deficit will be applied in the following year. The deficit should be reviewed for types of reason (reasons we could control or beyond our control). The district and colleges should set a certain amount of reserves for year-end deficits beyond the 5% district-wide required reserved. The over-expenditures of the adjunct faculty have always been viewed that the Districts responsibility to take care of. When times are good in the past, the part-time faculty account always goes in the red. We were putting the investment to chase the growth dollars available from the state. We were earning more income than we actually spent. When we have deficit growth, we realized that the current model was not working because as we cut classes we were losing more income then what we actually saved by cutting the class. The new model will be more transparent.** Can it borrow from the college with a surplus or from the district general reserve? If so, will the debtor college have to pay interests? **If the college needs money and needs to borrow money, (cash-temporarily out of other fund-will charged interest lost) (if current general fund, no-interest) – We have not really discuss this topic so it is still to be determined.**

    Each college needs actively manage its budgeting/expenses but the District/Chancellor/Board will still have the oversight role. Historically, the State applies deficit at P1 and at P2, the colleges/district should not have the authority to spend 100% on the dollar. All cost centers need to have money set aside for unexpected events because the district will not bail the colleges out. The culture of this District needs to change. Categorical programs have to be spent first and the general fund should be spent last.

  - By the same token, what happens if district operations end the year with a deficit. **The same rule applies.** Are the colleges assessed an amount to cover the deficit? **No!** Does the district get an advance on next year's allocation? **No, the district will start with the year in the red.**
    A lot of Mr. Didion's questions need to differentiate whether it is a systemic vs. a one-time problem. The response to each would be different.

  - Can a cost center reduce staff to cover a deficit? **Yes.** If so, where do those staff go (assuming the district has adequate funds as a whole)? **To be determined base on collective bargaining unit.**

  - When classified staff reductions occur and affected employees exercise their bumping rights, do the cost savings all go to the college that eliminated the position and the cost increases move to the college that received the position through the bumping? (I assume there will be cost increases to the receiving college because bumping involves a more senior employee displacing an employee with less seniority). **Yes, the cost is no longer the cost of the college that eliminated the position. The college that received the position needs to budget for the cost increase. That's the way it is.**

  - Will we continue to allocate full-time faculty positions at the district level **(YES)** or will this become a college decision based upon its budget priorities? **It needs to be monitored at the college's level.**

- If decisions on faculty increases/decreases will move to the colleges, will the colleges be separately responsible for maintaining their full-time faculty obligation? **It is a district-wide obligation number and needs to be coordinated and determined by Cabinet based on FTES production and approved by the Board.** Can a college elect to not meet its FON and just pay the penalty? **No.** Given the fact that the FON is a district-wide obligation, could one college not meet its FON, but still avoid a penalty because the other college is in excess of its FON? **No, every cost-center needs to share in the responsibility to produce the district-wide obligation number.**

- A similar concern relates to 50% law compliance. Will each college be responsible for maintaining its 50% law ratio? **Yes.** This obviously has a bearing on the types of positions a college can add or eliminate. **It needs to be calculated district-wide but monitored at the college level.**

- As a cost center, will district operations also be able to generate a surplus? **Yes. Surpluses should be monitored and taken into consideration. An annual review of the district office budget should be done to make sure that the district does not overcharge the colleges.**

- I see from the chart (page 4 of 6) in the 4/13/11 workgroup minutes that Property & Liability Insurance costs will be charged back to the site. What about uninsured losses and litigation costs? If one college has significant litigation related to a construction project, which probably would not be covered by insurance, are those costs the responsibility of the college or the district as a whole? **– No model allows for this type of cost. If it happens, it's the obligation of the Board to decide whether it will be charge out of the general fund. We do have the self-insurance fund. – To be determine.**

- Reserves and ending balances have typically been viewed by unions as funds available for wage/benefit increases. If reserves are held at the colleges, how will those revert back to the general fund for use? **We can provide the colleges a report of the ending fund balance and combined ending fund balances of all sites if needed.**

o One final thought, economies of scale would indicate that a larger college will be able to absorb staffing increases easier than a smaller college. **Mr. Hardash believes that the colleges are proportional and SCC is not a small college anymore.** However, in order to grow, a smaller college may need to increase staff. Will the allocation model contain some mechanism to ensure that the relative size of the colleges are not cast in stone, or will growth, by nature of allocation formula, always occur in proportion to existing size? **Growth in the future should tie to efficiency and productivity. Center FTES should be monitored so it would not drop down to below 1,000 FTES.**

The meeting was adjourned at 4:17 p.m.

<u>Upcoming BAPRC Meeting:</u>
May 25, 2011, 1:30 – 3:00 p.m. Board Room, DO #107

<u>Upcoming Work Group Meeting:</u>
June 1, 2011, 2:30 – 4:00 p.m. - SAC Foundation Boardroom