2007-2008 PALOMAR COLLEGE DISTRICT BUDGET

THE 2007-2008 STATE BUDGET

On August 24th, after a 55-day impasse the Governor signed the 2007-2008 Budget for the State of California. This delay ranks among the longest budget impasse periods in state history and had the potential of crippling many state services. Thankfully, the impasse was resolved and community colleges throughout the state were able to maintain operations and respond to enrollment demand without disrupting instruction and student support services. However, it is fairly easy to see the challenges faced at the local level in planning a district's annual budget.

The Governor's proposed 2007-08 State Budget has been very dynamic since it was first released on January 10, 2007 going through numerous revisions throughout the budget development process. The community college budget package was approved by the conference committee on June 29th and subsequently sent to the Governor for his signature on August 21st under approved Senate Bill 77 (The 2007-08 State Budget) along with the accompanying trailer bills necessary to implement the annual budget. Although the conference committee funded Proposition 98 at greater than the minimum guarantee amount, the 2007-08 budget package sent to the Governor provided the minimum amount required through the creative use of special funds and one-time funds.

The budget passed by the Legislature and sent to the Governor for his approval provided the following for community colleges:

ONGOING FUNDS:

- $80 million reduction in the current (FY2006-07) year and budget (FY2007-08) year for Apportionment.
- 4.53% COLA for Apportionments, DSPS, Matriculation, EOPS, CARE and Child Care Tax Bailout.
- 2.0% enrollment Growth for Apportionments (1% restoration funding already included in base). However, it should be noted, language was adopted that states in the event the community college apportionment line item is insufficient to fund all restoration reported in 2007-08—the first priority on growth funds will be to fund restoration.
- 2.0% Enrollment Growth for selected categoricals (DSPS, Matriculation, EOPS, and CARE).
- $13.8 million to provide a rate increase for career development & college preparation (enhanced non-credit).
- $5 million Nursing program enrollment and equipment.
- $1.9 million to the EOPS book grant program.
- $500 thousand for the Foster Care/Kinship program.
- $570 thousand for the Fiscal Crisis and Management Team (FCMAT).
- Included budget language to recapture $80 million of 2006-07 Apportionment funds on or after March 14, 2008. (This language guaranteed that all workload reported in the current year will be funded and avoid the potential for a revenue deficit.)

ONE-TIME FUNDS:
The Budget sent to the Governor provided $26.7 million in one-time funds for the following: $8.1 million Physical Plant and Instructional Equipment; $8.1 million Nursing and Allied Health Equipment; $4.0 million Part-Time Faculty Health Insurance; $4.0 million for nursing program simulators; $1.5 million Construction College; $1.0 million Cal-PASS.

Governor Schwarzenegger signed the 2007-08 State Budget on August 24th, which provides an ongoing increase of $377 million in Proposition 98 state general funds for community colleges. The Chancellor's Office and the League were disappointed that the Governor vetoed $13.8 million to provide a rate increase for Career Development and College Preparation and $33.1 million to support the "Basic Skills Initiative". Both of these address long standing priorities of the system. The Governor also vetoed $4.0 million for the Part-time Faculty Health Insurance program, a long standing system priority, and $1.5 million for Construction College, an Assembly legislative pilot item.

The Chancellor's Office is hopeful that the $13.8 million for Career Development and College Preparation will be recaptured for this current budget year or progress made in the FY2008-09 budget for this issue, which had been previously declared a priority by Governor Schwarzenegger. According to the Governor's office, this item was vetoed due to a lack of accountability measures having been developed to improve student outcomes as agreed to in the compromise reached last year under SB361. Thankfully, the $33.1 million for the "Basic Skills Initiative" will be restored by AB194.

An attachment prepared by the Community College League of California showing the development of the state budget follows this budget narrative. Also included is a "Comparison of Recommended Funding Increases over 2006-07" prepared by and included in the Chancellor's Office State Budget handbook which was distributed at the budget workshops held September 18th and 20th.

2007-2008 PALOMAR COLLEGE FINAL ADOPTED BUDGET

Prior to reporting Palomar College's Final Adopted Budget for FY2007-08, a brief summary appears warranted to reflect upon some monumental events that have taken place during FY2006-07 and the impact they will have on the FY2007-08 and subsequent budgets.

- ✓ In September 2006, the State Legislature passed SB361 which reformed the general apportionment funding formula for community colleges and resulted in Palomar College's per unit FTES being further equalized to other districts throughout the state. We continue to be under-funded as a district and a system as compared to other state systems; however, this legislation significantly impacted our ability to hire faculty and staff to provide better instructional services to students and continue our efforts related to attainment of our mission of student success.

- ✓ On November 6, 2006, the electorate of the district supported and approved a $694 million bond that will allow the district to implement its Master Plan 2022 over the next dozen or so years. This is without a doubt one of the most momentous events to happen to the college since it first opened its doors in 1946 and will allow the district

to better serve its community. However, the use of Proposition M funds is restricted by the items listed in the resolution brought before the voters and subject to GO39 regulations; therefore, they cannot be used for district "operating" purposes. In accordance with GO39 regulations, an Independent Citizens Oversight Committee (ICOC) was appointed by the Governing Board on May 8, 2007.

- ✓ Also, on November 6, 2006, the statewide electorate approved the passage of Proposition 1D, which provides the district with capital outlay funds to build the Multidisciplinary Instructional Building (MIB). This building will provide more than 100 thousand gross square feet of instructional space to allow the college to increase access in modern, state-of-the-art facilities as compared to buildings that are 35 to 50-years old and in need of great repair.

- ✓ The College opened its Natural Science Building (NS), which is also more than 100 thousand gross square feet, for the fall 2007 semester. The NS Building was the first new instructional building to actually be built on the campus in nearly 50 years. The NS building was supported primarily by state tax dollars with augmentation for equipment not covered by the state bonds from the locally approved Proposition M bond as defined in the resolution approved by the voters.

- ✓ One May 2, 2007, the District sold its first bond series under Proposition M "2007 Series A" in the amount of $160 million. The sale of Series A allowed the district to immediately begin designing new buildings and remodeling, renovating, and replacing old buildings in accordance with the Master Plan 2022.

- ✓ On June 14, 2007, the District closed escrow on the purchase of 83.6 acres of land in the northern part of its sprawling district in the Fallbrook area. The District is in the midst of concluding an Environmental Impact Report (EIR) and will begin civil design engineering work to grade and improve the parcel, with the plan of opening its first building for classes in fall 2011 at this location.

Budget Parameters and Priorities

The Governing Board is committed to maintaining the on-going fiscal stability of the District by meeting the Chancellor's Office fiscal monitoring requirements and Title 5 regulations related to principles for sound fiscal management. The District's on-going fiscal stability is essential to assure achievement of the mission of the college. The college's core mission and function is that of student learning; therefore, all fiscal and budget decisions have been made with that in mind. The District continues to strive to tie budgeting to strategic planning in its budget development process through the four planning councils.

Furthermore, it is the intent of the District to not engage in deficit spending and as such, budgets should be developed on the basis of projected annual revenues and expenditures. However, the Governing Board may consider using a portion of the beginning fund balance to fund expenditures that are consistent with the institutional goals and objectives of the District. The FY2007-08 Adopted Budget presented to the Governing Board for approval provides a

balanced budget as required by law by using a portion of the fiscal year 2007-08 beginning fund balance.

Budget Assumptions and Development Process

The Adopted Budget in the Unrestricted General funds was developed by allowing each department to identify its needs and submit a budget corresponding to those needs. The guidelines that were developed by the Fiscal Stability Task Force used to develop the Two-Year Fiscal Plan 2006 and approved by SPC were utilized for budget development. However, because the needs of the District are so great this resulted in an out of balance budget. The president, vice presidents, and deans reviewed the unrestricted budgets to identify expenditures that could be funded from the one-time revenues received in FY2006-07 apportionment identified for general purpose usage and carried forward into FY2007-08 Fund 11 Designated budget rather than from ongoing revenues.

The FY2007-08 Adopted Budget is based upon the following assumptions:

1. COLA of 4.53% increasing revenue by $3,963,991.
2. Attainment of FY2006-07 Base FTES as reported on the CCFS-320 report submitted in July 2007 as follows:

Credit FTES	17,815.78
Non-credit FTES	1,062.49
Enhanced Non-credit FTES (CDCP)	524.03

3. No enrollment growth for FY2007-08.
4. No stability funds have been included in the Adopted Budget.
5. Salaries for faculty and staff have been projected at the appropriate step increase for FY2007-08.
6. Employee benefits have been adjusted to include all known increases.
7. The budget includes updated information for all projected mandated costs, utility costs, and other operational cost increases.

In addition, according to the most recent information received from the Chancellor's Office, no one-time funds that will impact Fund 11 are expected to be received by the District in FY2007-08.

Current FTES rates as a result of passage of SB361 as adjusted for FY2007-08 COLA are estimated to be approximately:

Credit FTES	$4,565
Non-credit FTES	$2,745
Enhanced Non-credit FTES (CDCP)	$3,232

Revenue

Following is a comparison of revenue by source in the Unrestricted General Fund, including Designated Accounts, for the FY2006-07 Budget and the projected revenues for the FY2007-08 Adopted Budget:

	2006-07	**2007-08**
• Apportionment	$84,513,721	$ 91,469,326
	2006-07 (cont'd)	**2007-08 (cont'd)**
• Other General Apportionment (one-time funds)	4,603,934	-0-
• Apprenticeship Program	1,124,701	1,045,647
• Part-Time Faculty	838,297	838,297
• Lottery*	3,000,000	430,000
• Non-Resident Tuition	1,600,000	1,600,000
• Interest	400,000	800,000
• Contract Services (Follett)	400,000	400,000
• Parking Fines	219,399	232,011
• Material Fees	167,091	143,414
• Miscellaneous	648,395	918,070
• Beginning Balance	10,131,811	12,971,009
Unrestricted General Fund Revenue	**$107,647,349**	**$110,847,774**

*Non-Proposition 20 Lottery funds have been moved to Fund 12 per external auditors as of FY2007-08 Budget.

Other local revenue projections listed above were made based upon an analysis of past trends with adjustments as a result of applying reasonable assumptions.

Expenditures

Following is a comparison of expenditures by category in the Unrestricted General Fund, including Designated Accounts for the FY2006-07 Budget and the projected expenditures for the FY2007-08 Adopted Budget:

	2006-07	**2007-08**
1000 Academic Salaries	$40,235,356	$42,943,298
2000 Classified Salaries	20,490,453	22,828,948
3000 Benefits	19,018,818	20,965,779
4000 Supplies & Materials	1,362,214	1,103,617
5000 Other Operating Expenses	9,032,443	8,713,358
6000 Capital Outlay	1,551,914	1,001,538
7000 Other Outgoing	1,125,919	997,542
7900 Reserves	14,830,232	12,293,694
Total Expenditures	**$107,647,349**	**$110,847,774**

The expenditures budget above reflects the current salary schedule, current staffing plus hourly conversions, planned vacancies and leaves, expected adjustment to fixed and discretionary costs, and enrollment at the base level along with the previously addressed

salary and benefits adjustments. Included in the Adopted Budget, subject to negotiations, is an amount equal to a salary increase corresponding to the COLA of 4.53% for all employees in the amount of $3,160,762. However, no salary increases beyond COLA have been projected in the expenditures in salary accounts previously listed.

As in recent years, an estimated salary savings of $1.0 million dollars has been reflected to offset annual budget savings as a result of vacant salaried positions being budgeted for one full-year though not all are filled on the first day of any fiscal year. This estimated savings is primarily due to vacancies as previously described resulting in a large ending fund balance in previous years. Additionally in the FY2007-08 budgeted expenditures, a $1.1 million dollar adjustment has been made for potential hourly savings as a result of anticipated canceled sections. Based upon an analysis completed by the Instruction Office, it was determined that approximately 10% of scheduled sections are canceled in any one fiscal year. It is anticipated that making this $1.1 million adjustment will avoid a large over-budgeting in the Instructional Salaries-Other accounts at the end of the fiscal year. In addition, a reduction to statutory and employee health benefits was also made to offset the reduction in the salary expenditures previously discussed.

Also included in the budgeted expenditures is increased salary and benefits costs associated with the addition of staff to support the Natural Science building, full-time faculty in excess of the district's obligation, nursing staff hired for the weekend nursing program, and staffing for Fiscal and Human Resources driven by internal and external needs.

Benefits include expenses for pensions, social security taxes, workers' compensation, and unemployment insurance, as well as for health and welfare benefits, which is projected to increase in excess of $1.8 million in FY2007-08. Premiums for health and welfare plans are somewhat complicated because health-plan policies and premiums run from January 1st to December 31st; whereas, the budgeted health and welfare benefits cover July 1st to June 30th. Effective January 1, 2008, a 15% increase has been included in the above referenced benefits for health, 8% for dental and 5% for vision in the Adopted Budget as estimated by carriers.

Supplies and Materials indicate a slight decrease over the previous year's budget. Other Operating Expenses also reflects a slight decrease over the prior year's budget. However, it is also noteworthy to mention that included in this account in the Institutional budget are the following: a budget for the Accreditation Self-Study; a budget for an additional Performance and Accountability external audit required by GO39 Bond regulations for Proposition M construction projects; a budget for the Independent Citizen's Oversight Committee (ICOC) operations, which must all be funded by the District's general fund in FY2007-08 Adopted Budget.

The 'Other Outgoing' expenditures consist primarily of the following:

- $540,912 for debt payment for Escondido Center
- $71,153 estimated for instructional equipment match
- $213,477 for scheduled maintenance match
- $30,000 for the Associated Student Government
- $3,000 for an additional District defibrillator
- $35,000 for Instructional co-curricular activities
- $25,000 for staff development

The "Reserves" (7000's accounts) for FY2007-08 consists of the following:

- $5,000,000 for the 5% District Required Reserve
- $3,160,762 for the projected 4.53% COLA expenditure distribution
- $3,490,317 for Designated projects received as of the Adopted Budget
- $642,615 for "other reserves" for contingency expenditures

Retiree Health Benefits

("Pay as you go" and Unfunded' liability)

Fund 69 was established during FY1997-98 for the "pay as you go" amounts set aside for medical and dental insurance paid for employees of the District who have retired or will retire under provisions of the benefit plan negotiated with employee groups. In FY2006-07 the benefits paid for those currently retired was $3,230,549 while the "pay as you go" funds transferred from Fund 11 was $3,272,632.

An actuarial study conducted in June 2005 estimated that an additional minimum contribution of $2.0 million will help reduce the unfunded liability for past service retiree health benefits over and above the "pay as you go" amount transferred to Fund 69 annually. This Adopted Budget proposal does not include a $2.0 million expenditure allocation for this liability; however, as previously stated it does include "pre-funding" retiree health benefits for employees currently actively employed.

To be in compliance with GASB45 as it relates to unfunded health benefits liability, the District is required to have a plan in place as of July 2008 on how the total unfunded liability will be addressed effective with FY2008-09. GASB45 does not require the District to fund the health benefits liability; however, once the District is required to recognize the unfunded liability on its financial statement, over a period of a few years, the District's net assets will significantly decline. This decline could potentially cause credit rating downgrades, making it expensive to issue debt. In addition, the unfunded liability will be considered in accreditation reporting.

It is therefore recommended that the District begin funding the past service liability for unfunded health benefits as additional revenue sources are identified, whether through realized revenue or budget savings at the end of a fiscal year. An actuarial study will be conducted during fall 2007 as part of the development of a plan to address GASB45 and to determine the current projected unfunded health benefits liability.

Ending Fund Balance

There are two ways to analyze the ending fund balance. One way is to compare the actual ending balance with the projected ending balance. The other is to compare the ending balance with the beginning balance. The latter demonstrates what happens during a fiscal year and may demonstrate potential trends that require attention.

A fund balance is the difference between revenues and expenditures in any one fiscal year. This amount is added/subtracted from any beginning fund balance and results in an ending

fund balance that carries forward to the next fiscal year. An increase in projected revenues occurs as a result of unexpected events such as: redistribution of growth revenues throughout the system in the "Recalc" apportionment received in the next fiscal year; achievement by a college/district of FTES enrollment growth beyond that which was projected in a budget year; receipt of mandate costs reimbursements or unanticipated one-time or local revenues. Additionally, any unexpended budgeted amounts increase an ending fund balance when the financial books are closed for a given fiscal year.

Following is an analysis of the FY2006-07 ending fund balance based upon actual financial information and the projected FY2007-08 ending fund balance as of budget adoption:

2006-07 Actual Ending Fund Balance – Fund 11
(Unrestricted & Designated)

The Adopted Budget for FY2006-07 projected an ending fund balance of $14,830,232. This projection included $4.6 million in one-time funds, which are included in the Designated Account projects ending fund balance of $5,412,634.

The Actual Ending Fund Balance for FY2006-07, which is the Beginning Fund Balance for FY2007-08, consists of the following:

5% Reserve	$4,700,000
Other Reserve	3,655,128*
Designated Accounts	4,328,118
Purchase Orders carried forward	287,763
Total Fund 11 FY2007-08 Beginning Balance	**$12,971,009**

*The "Other Reserves" amount in the fund balance represents the net effect of additional revenue as compared to actual expenditures.

2007-08 Projected Ending Fund Balance – Fund 11
(Unrestricted & Designated)

The Adopted Budget for FY2007-08 projects an ending fund balance of $9,132,932. In addition, there is a contingency allowance for COLA expense of $3,160,762 yet to be spread to compensation accounts subject to negotiations. Included in the projected ending fund balance is $3,490,317 for Designated Accounts, which includes one-time general purpose funds remaining from FY2006-07 and mandated costs that were reimbursed by the state in 2006-07 in the amount of $1,212,298.

An itemized list of the allocations from the projected ending fund balance for FY2007-08 is shown below:

5% Reserve	$5,000,000
Other Reserve	642,615
Designated Accounts	3,490,317

Total Unrestricted Ending Balance $ 9,132,932

A spreadsheet is included on Page 4 of the Adopted Budget report that summarizes the FY2006-07 and FY2007-08 revenue and expenditures for Funds 11 and12.

FUNDS AT PALOMAR COLLEGE

The General Fund, Fund 10 Restricted and Unrestricted, is clearly the largest fund of the District. It represents approximately 77% of the District's total expenditure budget for all funds, restricted and unrestricted. The other funds are for restricted purposes as prescribed by law or directed by District policy. As a result of the passage of Proposition M, two additional funds have been added: Fund 22, Prop M Bond Interest and Redemption Fund and Fund 42, the Prop M Bond Construction Fund. Following is a list and description of all of the current Palomar College funds:

The General Fund (10)
The General Fund is maintained to account for those transactions that in general cover the full scope of operations of the District—instruction, administration, and student services maintenance and operations, etc. (Note: Fund 10 = Fund 11 Unrestricted + Fund 11 Designated + Fund 12))

The Palomar College General Fund is divided into three sub funds: unrestricted, designated and restricted.

- Unrestricted is used to account for resources available for the general purposes of the District's operation and support of its educational program. (Fund 11)

- Designated is used to account for unrestricted monies for specific operation purposes, such as field trips, planetarium, etc. (Fund 11)

- Restricted is used to account for resources available for the operation and support of the educational programs that are specifically restricted by laws, regulations, donors or other outside agencies as to their expenditure. (Fund 12)

The Prop M Bond Interest and Redemption Fund (22)
The Prop M Bond Interest and Redemption Fund is the fund used to account for the accumulation of resources for and the payment of Prop M General Obligation Bond principal and interest.

The Debt Service Fund (29)
The Debt Service Fund is the fund used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

The Child Development Fund (33)
The Child Development Fund is the fund designated to account for all revenues for, or from the operation of, childcare and development services, including student fees for child development services. Costs incurred in the operation and maintenance of the childcare and development services are paid from this fund. General-purpose monies of the District are used to support child development services by inter-fund transfer from the General Fund into the Child Development Fund.

Capital Outlay Projects Fund (41)
The Capital Outlay Projects Fund is used to account for the accumulation of monies for the acquisition or construction of capital outlay items, including scheduled maintenance projects. General-purpose

monies of the District are used to support capital outlay projects inter-fund transfer from the General Fund into the Capital Outlay Projects Fund.

The Prop M Bond Construction Fund (42)
The Prop M Bond Construction Fund is used to account for the monies received from issuance of the Prop M bonds and the construction projects for which that money is used.

Energy Conservation Projects Fund (43)
The Energy Conservation Projects Fund was established in July of 1985. The fund is involved in a number of major energy saving projects with the goal of reducing energy costs while maintaining and improving the comfort of occupied spaces. The remainder of the College's allocation of $49 million energy costs/projects is in this fund.

Post Retirement Benefits Fund (69)
This fund was established during the 1997-98 fiscal year to receive the amounts set aside for medical and dental insurance paid for employees of the District who have retired or will retire and covered under provisions of the benefits plan.

Associated Students Trust Fund (71)
The District for organized student body associations designates the Associated Students Fund to account for monies held in trust. This fund also accounts for monies of student clubs formed through the District.

Student Representation Fee Trust Fund (72)
Education Code Section 76060.5 provides for a student representation fee of one dollar per semester if approved by two-thirds of the students voting in the election. In the fall of 1990, Palomar College established this fee. Monies collected are to be expended to provide for the support of governmental affairs representatives who may be stating their positions and viewpoints before city, county and district governments and before offices and agencies of the state government.

Student Center Fee Fund (73)
This fund is to account for monies collected for the addition to the Student Center facility. The funds are used for the debt service of lease revenue bonds issued to finance the addition.

Student Financial Aid Trust Fund (74)
The Student Financial Aid Trust Fund is the fund designated to account for the deposit and the direct payments of government-funded student financial aid, including grant and loans or other monies intended for similar purposes and the required district-matching share of payments to students.

Scholarship and Loan Trust Fund (75)
The Scholarship and Loan Trust Fund is the fund designated to account for such gifts, donations, bequests and devises (subject to donor restrictions) which are to be used for scholarships or for grants in aid and loans to students. This fund is used to account for the expendable trusts, where both principal and interest may be expended or disbursed. During fiscal year 1997-98, the majority of these scholarship accounts were transferred to the Palomar Community College Foundation.