

# Fiscal Stability Task Force Mid-Year Report

## Background

In 2001, Palomar College initiated a strategic planning process, which set goals and action priorities for the three-year Strategic Plan 2005. One of the five goals identified in the plan was *Resource Management*, which set as an action the need to “*utilize existing human, physical, technological, and fiscal resources efficiently and effectively and increase external funding.*”

The FY04-05 budget development process was a rolled-over budget as had been the case throughout recent years at Palomar College. Because Palomar has never engaged in a “zero-based” budgeting development, budgets that exist throughout the district have never or at least in recent years justified unit budgets. It was hoped that the FY04-05 budget could have included a restoration of the planning council reductions taken as a result of a statewide budget crisis during the previous fiscal year and address additional district needs of equipment, supplies, and increased operating costs. Given the fact that the budget crisis is expected to continue into FY05-06, Palomar College projects that it will continue to run an operating deficit unless budgeting issues are addressed that shift current budgets, reduce expenses or identify new sources of revenue.

In anticipation of the projected deficits for FY04-05 and 05-06, the Strategic Planning Council directed the Revenue Allocation Committee (RAC) on May 18, 2004 to form a task force consisting of RAC members plus two members from each of the other four governance’ planning councils (Instructional Planning Council, Student Services Planning Council, Administrative Services Planning Council and Human Resources Services Planning Council) to address the following objective as assigned by SPC:

*FSTF’s role is to develop a two-year plan to balance the budget where expenditures equal revenues by the end of FY05-06 and fund balances equal a minimum of a 3% reserve on June 30, 2006.*

FSTF reports to the Strategic Planning Council and the expected outcome of its work is a *balanced budget with detail documentation on “right-sizing” of expenditure plan due January 1, 2005.*

To accomplish the stated objectives, a true commitment to “right-sizing” the budget requires open dialogue and agreement to engage in an organizational and budget review to determine where the college is over-spending or misspending. The task force was formed in May 2004 and met regularly throughout the summer and fall of 2004. At FSTF’s first meeting on June 24, 2004, Jerry Patton began the meeting by giving a brief budget update that indicated that there was a serious shortfall in FTES for FY04-05, which would result in \$843,000 loss of revenue significantly increasing the deficit balance projected for the year. Two goals were discussed and established at this initial meeting:

1. Reduce deficit financing for FY2004-05 to less than \$1 million
2. Increase allocation for retiree medical to a realistic level

To achieve the above stated goals, Joe Newmyer (Interim Vice President, Finance) and Jerry Patton, suggested that FSTF

1. Review every vacancy
  - Consider not replacing
  - Consider transfers to fill essential positions.
2. Review discretionary budgets
  - Reduce 6000 allocations to absolute necessities
  - Review expenditures in other discretionary budgets for last 3 years
3. Review other outgoing sources
4. Review Designated Funds

It was also recommended that a review of the use of classroom be done by

1. Comparing seats filled with lower of total seats or class maximum
2. Comparing capacity with usage for each classroom

Additionally, the task force must attempt to “right size” the FY05-06 budget in an attempt to reach fiscal stability.

#### **Actions taken to address FY04-05 deficits**

1. Retiree Medical fund/restricted funds – the intent is to have all current categorical programs allocating for retiree health benefits by FY05-06 and to ensure that all future grants be submitted with the costs listed in the grant application. It was further agreed that current categorical programs might require time to phase in the costs over the next two years but that every attempt would be made by each of the Vice Presidents to accomplish the intent of this action (July 13, 2004, FSTF motion).
2. Child Development Subsidy – because there is a sufficient ending balance, the district would forego making the FY2004-05 matching subsidy (July 13, 2004, FSTF motion).
3. Capital Outlay Budgets – it was agreed that 600010 accounts would be reduced to bare essentials for Fund 11 Unrestricted and Designated budgets to reduce the overall deficits. Department/unit equipment or capital outlay purchases would have to be made by transferring from 400010 and 500010 accounts (July 13, 2004, FSTF motion). \$100K in funds was identified for Instructional Equipment Emergencies in addition to \$211K to replace out of warranty servers and switches such that a total of only \$311 would remain in the Capital Outlay account with approximately \$528K going toward the current deficit reduction (July 27, 2004, FSTF motion). As a result of additional Block Grant funds, the \$100K identified for Instructional Equipment Emergencies was not required and went toward the current deficit reduction (August 12, 2004, FSTF motion). On August 24, 2004 a motion was passed that approved \$211,394 from Capital Outlay Budgets for the purchase of the out of warranty servers and switches with remaining balance used to off-set budget deficit.

4. Apprenticeship Program – it was reported that this designated fund projected a \$91,584 balance after revenues and expenses. It was recommended that this ending fund balance be used to assist in offsetting the 2004-05 deficit (August 12, 2004, FSTF motion).
5. Other Designated Accounts – a recommendation was brought forward that three areas under the Administrative Services Division’s ending balances be used to off-set FY04-05 deficit as follows: Follet Minimum Guarantee balance of \$135,000; BFAP (Board Financial Aid Program) is currently over-funded by \$40,000 and Indirect Overhead has a surplus after expenses of \$250,000 (August 12, 2004 FSTF). Discussion of proposed increase of per copy costs at Comet Copy to include discussion of possibility of charging student’s material fees (August 24, 2004 FSTF). The need to review vacancy positions before hiring the V.P. Human Resources and Foundation Office Director as well as, all consultant contracts were addressed in various discussions with no specific conclusion.

The actions above reduced the FY04-05 deficit by just over one million dollars. However, after meeting throughout the summer and having addressed the issues listed above, the task force members expressed concern that there had been no corrections to the budget or structural issues. Thus the original task of “right-sizing” the budget for FY05-06 had not been accomplished. Concern was also expressed about the possibility that Palomar College projections indicate that it will not meet the Chancellor’s Office’s growth projections resulting in \$2.4 million being lost to the district. At its September 21, 2004 meetings, FSTF members voted to begin working in sub-groups in order to effectively tackle the broad range of issues that needed to be addressed in an attempt to create a budgeting structure that would ensure that the district remains fiscally stable beginning with FY05-06.

### **Recommended Process**

The task force agreed to continue to meet during its regularly scheduled fall 2004 RAC meeting times on the 1<sup>st</sup> and 3<sup>rd</sup> Tuesday of each month. In addition, the working sub groups will meet on alternate Tuesdays with each of the sub-groups assigned specific tasks. The sub-groups would report back to the large group with any issue that is ready for consideration by the entire task force, to be brought forward as a First Reading Action Item. The four (4) working sub-groups were formed (as approved by FSTF on October 5, 2004) with the following assignments:

**Group 1:** Tasked with a review of spending and staffing practices for all expenditures as compared to Gooder or other comparable colleges based upon factors such as FTES, WSCH.

**Group 2:** Tasked with the development of an organization/program formula model worksheet (e.g., zero-based budgeting in an effort to develop applicable formulas.)

**Group 3:** Tasked with a review of the colleges organization/structure to determine appropriate workload issues, vacancy replacements and appropriate level of spending commitment for Education Centers.

**Group 4:** Tasked with reviewing Enterprise operations, SIG Contract, Advancement/Foundation office arrangements and other consultant contracts. and a review of designated accounts.

**Progress Report of Groups and Actions Taken**

The four sub-groups have met regularly since being formed in October 2004. It has become clear that FSTF must continue to work beyond the January 2005 date originally identified to address the FY05-06 budget. The groups are committed to the task at hand and are presenting this report as a mid-year status report to SPC with a request that a report also be made at the January Board of Trustees meeting.

To attain the stated goals, the four groups developed and compiled the following *Guiding Principles* (not listed in any ranked order), which were accepted by the entire FSTF at its November 30, 2004 meeting.

Principle	Comments
1. Decisions made that impact fiscal resources must be based upon comparison data and ranking of Palomar College as compared to the Gooder Colleges. (Group 1)	Palomar College adopted the Gooder Colleges as the comparison group more than a dozen years ago by board action. The 16 California colleges identified are similar to Palomar in size and structure and represent a comparable group to establish benchmark data for decision-making at Palomar College. Due to variances in how data can be reported by colleges to the Chancellor’s office, additional research has been and will continue to be done to validate comparable information.
2. Any budgeting model developed must facilitate greater focus on and alignment with Palomar College’s mission & strategic plan. (Group 2)	While recognizing that any budgeting model can only play a partial role in aligning activities with the vision, mission and values of the college, there still needs to be an explicit consideration of such alignment within the budget process. In addition, the model must ensure that the human, physical, technological, and financial resources to achieve its broader educational purposes, including stated learning outcomes in accordance with accreditation requirements are met.
3. The budgeting model must enable the college units to take greater control over managing their budgets so as to enable them to undertake mid to long range planning with greater certainty. (Group 2)	The budgeting model should enable all units to plan over a 3-year period with an emphasis placed on variance analysis of actuals to budget in the preparation of the 3-year forecast. The budgeting model should also include the adopted multi-year flexible budget plan with a requirement that all budget expenditures require justification.

<p>4. The budgeting model and any review or changes to organizational structure including vacancy replacements must be transparent and trustworthy encouraging benefit and risk sharing across the campus. (Group 2, 3 and 4)</p>	<p>There should be a commitment to achieving transparency, to monitor and report based on reliable data with the needs and priorities for the institution driving allocations. The budgeting model should also include a 3<sup>rd</sup> party mid-year rotational review process by RAC to include a process for objective consideration of any budget reductions or increases. Uniform procedures regarding vacancy replacements must be established and brought through the appropriate Planning Council to SPC and include a 3<sup>rd</sup> party review by RAC before proceeding with hiring of any replacements.</p>
<p>5. The budgeting model must facilitate the setting of strategic priorities and provide allocation of funds that are driven by student demand and other high priority areas. (Group 2)</p>	<p>The budgeting model should include flexibility that allows for shifting of resources based upon student load needs but with regard to a commitment to remaining a comprehensive learning college. In addition, the budgeting model needs to include an opportunity to examine the funding being provided to support the broad initiatives of the guiding strategic plan and accreditation requirements.</p>
<p>6. The budgeting model must address a district wide level of service and determine the funding split between academic and support activities to provide that appropriate level of service. (Group 2)</p>	<p>The budgeting model should include a determination of the funding split between academic and support activities and consideration of which services are provided on what basis e.g., 24/7 college versus some other service constraint.</p>
<p>7. A review of the organizational structure to determine appropriate workload issues, process for handling vacancy replacements, and appropriate level of spending commitment for Education Centers must be tied to the vision, mission and goals of the strategic plan and accreditation standard requirements. (Group 3)</p>	<p>While recognizing that a review of any organizational structure must include input from those who know the areas best i.e., the Vice Presidents and the Planning Councils there still needs to be an explicit consideration of any structural changes or vacancy replacements with regard to budget resource availability.</p>
<p>8. There must be NO layoffs and an “ideal organizational structure” developed that provides for a five year plan on how to achieve that structure when opportunities are presented through vacancies. (Group 3)</p>	<p>In accordance with Accreditation Standard III: Resources: Human resource planning is integrated with institutional planning. The institution systematically assesses the effective use of human resources and uses the results of the evaluation as the basis for improvement. (Note: With the exception of “soft money” budgets.)</p>
<p>9. The district must “live within our</p>	<p>In accordance with Accreditation Standard III:</p>

<p>means” without regard for growth money. The ultimate goal being to “right size” the budget and eliminate deficit spending such that any growth funds are used for other than base costs. (Group 1, 2, 3 &amp; 4)</p>	<p>Resources: The institution effectively uses its human, physical, technology, and financial resources to achieve its broad educational purposes, including stated student learning outcomes. In addition, the structure must support attainment of the mission, vision and goals of the strategic plan.</p>
<p>10. Enterprise Operations and Consultant Contracts benefits impact on student and district success must outweigh the costs. (Group 4)</p>	<p>While recognizing that district Enterprise Operations contribute to the services offered it is imperative that any analysis must include a focus on the costs and benefits of each operation to determine whether the benefits outweigh the associated costs. In addition, any consultant contracts must include a review to determine whether or not the contracts should be continued or if internal staff could better serve the needs of the district. All reviews must include an analysis of the impact on student learning and impact to the district’s remaining fiscally stable. (Group 4)</p>

### Timeline Update and Group Status Report

This mid-year report given to SPC at its December 7, 2004 meeting represents an attempt to communicate to the campus community including the Governing Board the work that has been accomplished thus far and that which is yet to be accomplished. FSTF requests that it be granted an extension beyond the original January 2005 date defined at the creation of this task force in May 2004. It is anticipated that Groups 1 and 2 will be able to complete its work in time for FY05-06 budget development process deadlines in March 2005. Groups 3 and 4 will continue to work throughout the spring semester until it has completed all of its assigned reviews so an extension to May 2005 is required.

Following is a summary report of the work completed thus far for each group (full meeting notes of FSTF are available at [www.palomar.edu/commttees.htm](http://www.palomar.edu/commttees.htm)).

**Group 1** has completed an analysis of the Gooder Colleges. It has been determined that Palomar’s ranking within the 16 colleges is not consistent across all activity codes. Instructional Activity and Facilities in particular are significantly under-funded and fall within the bottom quartile as compared to the other Gooder Colleges. Group 1 is in the process of validating the data but has determined that certain inequities must be addressed. Two preliminary goals have been established. First, it was agreed that the proportion of funds allocated to Instructional Administration (Activity 6000) should be reduced over a three year period. The second goal is to increase the proportion of funds allocated to Instruction (Activity 0100-5900) and to Maintenance & Operations (Activity 6500). In addition, Group 1 will review and develop guidelines for grant applications submitted by Palomar College to determine fiscal impact of any grants applied for currently and in the future.

**Group 2** is in the process of developing a budgeting worksheet that includes a variance analysis of the three most recent years of “actuals” as a determinant for building FY05-06 budgets and justification of all budget expenditures such that budgets are *built* rather than *rolled over* for FY05-06. The worksheet will also include a provision for the multi-year flexible budgeting model adopted by the district in December 2003 (see Attachment A). The worksheet is not intended to be punitive or to reduce budgets but to *shift* budget resources as needed while ensuring that each unit is able to plan for its current and future needs at an agreed upon level of service.

**Group 3** has gathered organizational charts, which will be sent to the four primary Planning Councils for their review. Vacancy procedures have been discussed but not finalized and it is agreed that procedures must address workload issues before any position is replaced. Also, all replacements must include consideration of the disparity in the various constituency matrixes. There must be a commitment to equalization of all of the various matrixes as ranked against the Gooder Colleges. This group will need to continue its work into the spring 2005 semester to address the above issues as well as the Education Centers, which it has been unable to review up to this point in time.

**Group 4** is reviewing the contracts and enterprise organizations and will continue to do so in the spring 2005 semester in order to make recommendations as to how they should be handled in FY05-06 and subsequent budget forecasts. In addition, the group expects to bring forward recommendations to FSTF early in the spring semester as to how Comet Copy can be self-supporting.

### **Concluding Actions – Fall 2004**

At its last meeting of the semester (November 30<sup>th</sup>), FSTF passed the following motions and agreed that sub-groups would not meet until the spring semester but that FSTF will meet as a total group on December 7<sup>th</sup> for its last meeting of the semester following SPC.

**Motion:** Accept the Over-Budgeting proposal to include procedures that would be a two-step process and identify Phase I and Phase II. Phase I would include all levels identified and Phase II would be at the FSTF level. Shift paragraphs identifying changes. (Dowd/Townsend-Merino) MSC. (See Attachment B)

**Motion:** Accept the recommendation of Group 1 as follows:

It is the recommendation of Group 1 of the Fiscal Stability Task Force that a policy should be established that all existing and proposed grants be brought to SPC and RAC for approval if they meet one of the two following criteria:

1. The provisions of the grant limit the college's recovery of indirect costs to a percentage less than full cost recovery. Currently, it is estimated that full cost recovery would require indirect cost recovery of at least 27%. Or
2. The provisions of the grant require matching funds from the college.

It is the expectation that SPC and RAC would examine the grant in terms of the mission and purpose of the college. (Gordon/Jay) MSC.

**Motion:** Accept Guiding Principles as written in the mid-year report with minor corrections and the inclusion of “with the exception of soft-money” to be added in #8. (Townsend-Merino/ Gordon) MSC.

**Motion:** Submit report to SPC with recommendation that the mid-year report be given to the Governing Board at the January meeting. (Jay/Neault-Kelber) MSC.

**Fiscal Stability Task Force Membership** (includes the Revenue Allocation Committee (RAC) and reps from each planning council):

Co-Chairs:

Bonnie Dowd (RAC)  
Joe Newmyer (RAC)

Members:

Berta Cuaron (RAC)  
Kathy Davis (RAC)  
Sue Doran (RAC)  
Carmine Eckman (RAC & HRSPC)  
David Forsyth (RAC & PFF)  
Tricia Frady (RAC)  
Rick Gommel (IPC)  
Sherry Gordon (RAC)  
Ken Jay (ASPC)  
Barbara Neault-Kelber (RAC)  
Rick Kratcoski (RAC)  
Joe Madrigal (RAC)  
Becky McCluskey (RAC)  
Wendy Metzger (ASPC)  
Katie Townsend-Merino (RAC)  
Jack Miyamoto (RAC)  
Renee Roth (SSPC)  
Mollie Smith (RAC)  
Buddy Springer (SSPC)

**Attachments:**

A: Multi-year flexible budgeting model  
B: Over-budgeting