PALOMAR COLLEGE®
Learning for Success

Dear Colleagues,

It has been just over a month since we activated our Emergency Operations Center in response to the COVID-19 pandemic. While I have mentioned it before, it is worth mentioning again. I am so grateful for the unrelenting commitment and collegiality we as a campus community have demonstrated. I remain confident that by working together, we will get through this challenging time.

While it may seem so, our focus on the COVID-19 pandemic has not overshadowed our concerns regarding the financial condition of the District. You may have heard about the funding coming through the CARES Act. While this funding will be used to help students directly and to offset costs associated with COVID, it cannot be used to supplant prior budget concerns.

In collaboration with colleagues across the District, we are continuing to address the recommendations in the FCMAT report. While we have made much progress in reducing expenditures (suspending travel, soft hiring freeze, discretionary budget sweep, addressing staffing schedule inefficiencies, early retirement notice, etc.), there is still an urgent need to significantly reduce our $11.7 million deficit this year. Specifically, because salaries and benefits comprise 96.2% of the District's net resources (prior to borrowing from OPEB), and the costs are projected to grow, we must minimally address the following:

- Reduce salary and benefits costs from 96.2% to maintain fiscal solvency (the state average is between 80% - 85%);
- Project costs and savings over the next two (2) or more years.
- Restore the $5 million borrowed from the General Fund back to the OPEB account.
- Maintain District required reserve levels.

As a result of our deficit, we have less cash on hand and as a function of the timing of state funding, the District anticipates having to borrow money this fall in order to maintain sufficient cash to meet payroll expenses.

Due to the above stated reasons, the District has been identified as a "High-Risk" district, based on the projected depletion of its reserves within the next two (2) years, which will cause us to be fiscally insolvent.

Because of this risk, the Chancellor's Office appointed Mr. Ken Stoppenbrink as our fiscal monitor. Mr. Stoppenbrink has started to assess the District's progress and is updating the Chancellor's Office regularly. Should we not make significant progress in reducing our deficit and expenses, there is a possibility that a Special Trustee will be appointed. Should this occur, the State appointed Special Trustee will have the decision-making authority for the District.

While avoiding this prospect is one reason to make these changes, more importantly, we desire to do so because we are all committed to the ongoing success of our students and colleagues. We cannot go back in time and undo decisions that have contributed to our current fiscal state. We can, however, move forward in a manner that best meets our current needs as well as establishes contingencies that will create a sound fiscal plan where we can respond with agility to the volatility of future state budgets.

Our collaborative and collegial work have led to creating a thoughtful **multi-year plan** intended to mitigate the budget deficit while keeping the health and welfare of all employees at top of mind. This plan includes:

- ways to mitigate or prevent a reduction in force (e.g. layoffs) to achieve cost savings;
- benefit reductions based on recommendations from the Benefits Committee;
- salary reductions;
- a contingency approach to renegotiate based on any unforeseeable changing factors.

The purpose and intent of the multi-year plan is designed to understand how decisions made today will impact our future fiscal condition. Each year, expenditures continue to increase, and revenues are expected to flatten or decrease, which affects the District's fiscal position. Instead of being reactive, having a multi-year plan in place will allow us to thoughtfully plan with the intention of returning us to fiscal stability.

Now more than ever, we recognize the feelings of insecurity and uncertainty that exist. For this reason, we want to reassure you that we are working to secure our financial position and standing in the State of California. We will continue to work with all groups in the effort to reach an agreement that will help stabilize and secure our District's financial obligations now and into the future. In doing so, we will be able to reduce our deficit, mitigate or prevent staffing reductions, and maintain independence from state oversight.

We look forward to our continued collaborative discussions with our groups and are dedicated to presenting positive news, prior to July 1, 2020, to address our common goals.

With Sincerest Regards,

Jack Kahn, Ph.D.

Acting Superintendent/President

Palomar College