State of the Budget
Question & Answer
April 29, 2020

Question:
VP Ligioso, you mentioned that the District will not be receiving reimbursements for lost revenues from COVID-19. Initially we thought reimbursements from the CARES ACT or FEMA would come. Why has this changed?

Answer:
When word of Federal assistance first was provided, it appeared to be more unrestricted in nature. Discussions at the state level initially believed that all revenue losses as a result of the coronavirus state of emergency would be eligible for coverage. While we are still awaiting specific CARES Act guidelines, both the student aid, as well as the institutional relief, CARES Act regulations have become more restrictive. Following is an excerpt:

> *CARES Act Section 18004(c) "May use funds received to cover any costs associated with significant changes to the delivery of instruction…so long as costs do not include payment to contractors for…pre-enrollment recruitment activities; endowments; or capital outlays associated with facilities related to athletics, sectarian instruction, or religious worship….no less than 50 percent to provide emergency financial aid grants." Not allowed: Marketing; Advertising; Senior Administrator's salaries, benefits, bonuses, etc.; Reimbursement for lost revenue.*

Question:
And do we know what additional expenses have been incurred as a result of COVID-19? Do we have an estimate of the lost revenue (FTES/apportionment)?

Answer:
We tracked and continue to track overtime, supplies, and equipment purchases related to COVID-19 and also sent an estimate ($1.3 million total) to the Chancellor's Office.

On lost revenues, we are still compiling the figures: parking fees are still being refunded, we will not charge parking for summer term; while many of our students are continuing their classes as we transitioned to online instruction, we will likely see requests for refunds, when students drop as a result of COVID-19. We do not yet know the full extent of such revenue losses.

Question:
You said moving forward, the District will need to borrow money. I believe you said this would be necessary just to make payroll. Did I understand this correctly, and when do you expect this situation to start? What is the expense associated with borrowing the money?

Answer:
We expect to end FY2019-2020 with approximately $13-$15 mil in cash on hand which equates to roughly a bit more than one month's of cash outflows. As the majority of expenditures are compensation, that monthly cash outflow is essentially payroll and benefit payments. I began the discussions with San Diego County to enter into a temporary funds transfer arrangement (will bring to Board in June with the Tentative Budget; having a Tentative Budget is part of the County requirement). I am also talking to financial advising firms to put in place Tax Revenue Anticipation Notes (TRAN). The County arrangement would be less expensive – likely at the same low interest rate we currently receive on funds held at the County. A TRAN is more costly as there are also transaction fees in addition to the borrowing rate. The San Diego Treasury/Tax Collector's Office has encouraged Palomar to first seek out a TRAN as the entire County is facing potential budget challenges and as such needing to level cash flows. Any such borrowings will be repaid from property tax receipts which represent about 80% of our funding stream.

Question:
Are you optimistic that receiving Center status for both centers is imminent? I don't believe these were your words. But you indicated that "the process" is underway. When might center status be granted?

Answer:
On Center funding -
The Fallbrook and Rancho Bernardo Education Centers on their own run about 500 FTES, and we are in the process to tag learning sites nearby and "controlled by" each Center, including scheduling and managing, as sub-locations each Center respectively. At initial glance, this practice would increase the respective FTES of each Center and in conjunction with online FTES (pre COVID-19), we would likely reach the 1000 FTES threshold within two years. We are working with our fiscal monitor who has experience in this kind of structure and have reached out to the Chancellor's Office as well. We are in the early stages and are optimistic.

The request for center status was to go to the January 2020 Board of Governors meeting but was pulled because of the then political and fiscal situation at Palomar. I did inform the Chancellor's Office of our intent to get that back onto the Board of Governors agenda, after Dr. Kahn and Board President Hensch provide an update on Palomar's situation.

Question:
The huge question I have was your statement concerning the $4 million that I believe we might not be reimbursed . . . I believe this was apportionment. I would like to better understand this situation.

Answer
If you are referring to the deficit factor (state revenues not sufficient to meet apportionment obligations), approximately $4 mil, is showing as a loss from the state. We as a system have experienced this in the past (even last year there was some concern, but it was fixed). While the May Revise will have more information, State officials expect more budget challenges that will likely not diminish the apportionment deficit. The State budget has been impacted by the coronavirus state of emergency: costs to respond; costs as a result of the changes in the economy; and lower revenues as a result of the change in the economy.

Another $4mil revenue loss is referenced which is the estimated revenue loss as a result of the ending of the hold harmless provision in the Student Center Funding Formula (SCFF) in FY2021-2022. While we are still protected under the SCFF hold harmless, that level of funding is in excess of the calculation of the college's FTES, Equity, and Performance pieces are generating (Total Computational Revenues).