



MEMO

To: Bruce Baron, Chancellor **Date:** 3/25/2014

From: Tim Oliver, Interim Vice Chancellor, Business & Fiscal Services

Re: College Brain Trust January 2014 Resource Allocation & Utilization Report with Chancellors Cabinet Responses as Modified and Adopted by the District Budget Committee (DBC)

The District Budget Committee (DBC) reviewed the Chancellor's Cabinet Responses to the College Brain Trust's January 2014 Resource Allocation & Utilization Report recommendations at special meetings held on February 20, 2014 and March 6, 2014, and its regular meeting held on March 13, 2014. The following responses include all modifications approved by the DBC.

A. FTES and Foundation (Base) Allocations

1. Make a conscious decision regarding the way in which CHC will be allowed to grow. Will it be proportional as occurs now or through a plan to increase its size and ratio within the district?

Cabinet Response: The budget allocation model guiding principles state, "All FTES is funded as a base allocation" and "All revenue earned by the colleges shall be distributed to the colleges less "assessments" for the District Office costs, District-Wide costs, reserve funds and other assessments as necessary (SERP for example)". Furthermore, both colleges have indicated an interest in spending college ending balances based on college-level decisions, with minimal or no restrictions. Therefore, a college with a positive ending balance may choose to increase enrollment beyond the District-established annual FTES target.

Cabinet supports the future growth of both Valley College and Crafton Hills College, provided that the growth is prudent and provides the necessary student services and administrative services necessary for effective college operations and student support. Cabinet recognizes that such growth may result in one college growing more rapidly than the other, and it is essential that growth for one college not harm the other college.

2. If the decision is to have a more structured plan then it is also necessary to evaluate how SBVC will be affected. We would suggest that care be taken to not materially harm SBVC. Further the district should work to maintain SBVC's qualification for the higher SB 361 base foundation allocation based on FTES size. For example if the goal was to increase CHC to 40% of total funded FTES over the next 5 years, this could be done through the State growth/restoration mechanism. This does not take away funds from the revenue base of SBVC.

Cabinet Response: In this fiscal year 2013-14, Valley College will almost attain the 10,000 FTES necessary to qualify for mid-sized college status per SB361 (2006). Furthermore, as stated above, Cabinet supports the future growth of both Valley College and Crafton Hills College, provided that the growth is prudent and provides the necessary student services and administrative services necessary for effective college

operations and student support. Cabinet recognizes that such growth may result in one college growing more rapidly than the other, and it is essential that growth for one college not harm the other college.

3. Until CHC grows under either approach (proportional or disproportional) some form of added subsidy may be needed. It could be considered transitional until the FTES level improves to a pre-determined level. Such a subsidy could be scaled downward as progress is made toward the higher level. Because the district has a strong fund balance it could set aside funds to provide a declining subsidy for a number of years as a way to not harm SBVC. If, because of the demographics of the district, CHC is likely to stay small into the foreseeable future, then a subsidy could be built into the RAM like the rural college state subsidy. If CHC was provided a subsidy to its foundation amount of \$550,000 the net change could be only \$385,000 if the subsidy was treated as an assessment in the current model. In other words through the application of the model, CHC would net only 70% of the \$550,000 because it too would be assessed 30% due to the way the model works. The net impact on SBVC would be a loss of income in the amount of \$385,000. If the goal was to yield \$550,000 to CHC then the subsidy could be constructed differently. The size and length of time for a subsidy is something the district needs to establish. This is strictly a local decision. SB 361 does not speak to how a multi-college district allocates resources internally.

Cabinet Response: Redevelopment Agency and other funding will add significantly to both colleges' FY2012-13 ending balances, relieving some of the budgetary pressure for now. However, projections show that CHC will have deficits in the near future without increased funded FTES and/or expense reductions, and/or increased other revenues. We believe that CHC can potentially grow to a self-sustaining college within the next 2 to 5 years; however, the District should be prepared to provide one-time or short-term subsidies from the District's fund balance to either college, as needed, provided that specific plans are developed to become self-sustaining.

4. The district could consider a modification to the foundation allocation like LACCD, however the negative effect of that upon SBVC would be substantial and could make things worse not better.

Cabinet Response: This requires additional study and should be discussed at the District Budget Committee.

5. The district could choose to leave the model as is and look for other ways to enhance resources flowing to the colleges through additional revenues or lower assessments and/or reduced spending at the colleges. It should be noted that if CHC was provided a subsidy via the Resource Allocation Model (RAM) and at the same time assessments could be reduced, any negative fiscal impact upon SBVC could be greatly mitigated.

Cabinet Response: The District should review all assessments and reduce where applicable. As previously noted, CHC may not require a subsidy in the near future. This should be discussed at the District Budget Committee.

B. College Brain Trust District Office Assessment

1. Consider a more structured approach to adjusting assessments for district office operations. It is important to provide a sufficient level of detail regarding budgetary changes and the need for the adjustments. How the changes are vetted is important to provide transparency and build trust.

Cabinet Response: The college administrations and the District Budget Committee should review proposed modifications to the District-wide and District Office budgets annually as part of the budget development process, with recommendations made to the Vice Chancellor, Fiscal Services and the Chancellor. We recommend that for the upcoming fiscal year, the budget be developed on a line item basis as opposed to a formula or percentage basis as the District provides a multitude of direct and indirect services; and, that this process should be reviewed annually thereafter. Any modifications should be fair and equitable to both colleges, and not harm either college.

2. Revise the Resource Allocation Model to include a methodology to make the district office assessment more responsive to the changes in available resources.

Cabinet Response: See response to B1 above.

3. Assessments in general should be reviewed through an established participatory governance and administrative process.

Cabinet Response: Agreed. See response to B1 above.

C. College Brain Trust Other District-wide Assessments

1. Fully fund or substantially fund OPEB to allow more resources to flow to the colleges. The district could allocate a portion of its fund balance to further fund the actuarial liability and relieve in part the annual assessment to the colleges. The district could implement an alternate strategy other than fully funding the annual required contribution (ARC) indefinitely. This last possibility was discussed briefly with district office personnel and could be elaborated if necessary. By using a portion of the district reserves and fully funding the OPEB liability, the annual OPEB assessment could be eliminated.

Cabinet Response: Fiscal Services is researching the current outstanding balance of the OPEB liability. Cabinet recommends funding the FY 2014-15 OPEB obligation from General Fund balances and conducting further studies for future year funding.

2. The district has instructed KVCR to become self-sufficient by the end of the 2013-14 fiscal year. We suggest a monthly monitoring of KVCR this year to determine if that goal will be attained and to develop a backup plan if it is not attained. The colleges will need to know this information early in 2014 so they can construct their budgets for 14-15. Clearly to the degree that cost is reduced the colleges are directly benefited.

Cabinet Response: We recommend that Cabinet analyze the impact of future KVCR subsidies, if any, and that such subsidies be paid from the Unrestricted General Fund balances rather than the college budget allocations. KVCR should develop a

comprehensive business plan for becoming self-sustaining. In addition, we recommend that KVCR maintenance and utilities costs currently paid by Valley College be the responsibility of KVCR and, if necessary, be paid from the District's General Fund balances.

3. We would suggest that the district consider implementing a strategy to eliminate or limit district subsidy of EDCT over some agreed upon time period.

Cabinet Response: We agree that EDCT should become fully self-sustaining over a reasonable period of time to the extent that its funding sources permit. Meanwhile, the colleges are willing to continue paying the annual cost of the salary of the Executive Director and Secretary for this valuable program. All other costs are paid directly from the various grants that fund the programs of the EDCT. The EDCT grants make substantial contributions by providing administrative fees from grants to the District and EDCT is continually seeking new grants and other financial resources. EDCT should develop a comprehensive business plan for becoming self-sustaining

4. We suggest placing union contract required costs in the district-wide assessment section of the Resource Allocation Model.

Cabinet Response: This requires additional study. This should be discussed at the District Budget Committee

D. College Brain Trust: Making the Model Operational

1. Clarify the guidelines to identify if some types of revenues are excluded from the model.

Cabinet Response: The budget guidelines state that all revenue is accounted for and is part of the allocation model. Fiscal Services will clarify the types and amounts of excluded revenue, if any.

2. Consider incorporating the allocation model principles identified above as part of the resource allocation model guidelines so that over time the model will have a solid framework against which to validate and modify the plan elements.

Cabinet Response: We agree

3. Delineate the responsibilities of the colleges in use of the resources allocated. In other words what mandates are there that affect how the colleges choose to budget their allocations.

Cabinet Response: We agree.

4. Make the model operational by developing responses to the following questions:

- a) Will the district be treated the same as the colleges in years of decline and subsequent restoration periods?

Cabinet Response: We agree that the district be treated the same as the colleges

in years of decline and subsequent restoration; however, we need to develop guidelines that are to be determined.

- b) How will the district-wide reserve be used and replenished?

Cabinet Response: To be determined. This should be discussed at the District Budget Committee.

- c) How much of a reserve will the colleges be allowed to carry or required to carry?

Cabinet Response: Currently, the colleges are allowed to carry all of their prior year ending balances. There are no guidelines for required college reserves. This should be discussed at the District Budget Committee.

- d) Since district office savings each year go to reduce college deficits what happens if the district office overspends?

Cabinet Response: To be determined. This should be discussed at the District Budget Committee.

- e) How will funded FTES be allocated to the colleges including growth, decline and restoration? Who sets the annual FTES targets for the colleges?

Cabinet Response: The annual FTES targets are established by Cabinet upon recommendations from Fiscal Services and the colleges. The budget guidelines state that all FTES is funded as a base allocation and all revenue earned by the colleges shall be distributed to the colleges less "assessments". This approach is consistent with SB361.

- f) How will state funding deficits be handled and prior year adjustments at P1?

Cabinet Response: All prior year adjustments, both positive and negative, are entered as adjustments to each college's ending balances.

- g) How will summer FTES be treated in the event it is needed to make funded cap?

Cabinet Response: Summer FTES is calculated, by college, for either the current or following fiscal year based on State eligibility.

- h) Can the colleges choose to use summer FTES to make their internal FTES targets?

Cabinet Response: Yes.

- i) How will the collective bargaining process affect the model?

Cabinet Response: The collective bargaining process might affect the model and each college will be responsible for salary, benefits and other costs related to the

college's faculty and staff; and for its proportionate share of District-wide and District Office assessments.

- j) How often should the model be reviewed and adjusted if warranted?

Cabinet Response: Annually.

- k) How will new revenue not currently captured in the model be treated?

Cabinet Response: The budget guidelines state that all revenue is accounted for and is part of the allocation model. Fiscal Services will clarify the types and amounts of new revenue, if any.

- l) How do district operations costs get adjusted?

Cabinet Response: Via the annual budget development process and, if necessary, budget amendments and transfers.

- m) How are increases in normal operating costs addressed?

Cabinet Response: College administrators and the District Budget Committee should review the District-wide and District Office budget annually as part of the budget development process.

- n) If changes are needed in the way funds are allocated is a transitional plan needed?

Cabinet Response: Yes.

- o) If the colleges are required to generate FTES above the funded level are those costs considered college expenses or district-wide?

Cabinet Response: Either, based on Cabinet recommendations. In FY 2013-14, the District allocated \$540,000 from Unrestricted General Reserves to pay for additional growth in excess of Advance Apportionment. Colleges will be asked to utilize their General Reserves before District wide General Reserves, unless Cabinet recommends otherwise.

- p) If functions are transferred from one college to another, from colleges to the district or from the district to the colleges how will that be addressed in the RAM?

Cabinet Response: They will be addressed on a case-by-case basis and adjusted accordingly. This should be discussed at the District Budget Committee.

5. Once recommendations 1 through 4 are completed, formally approve the documents so there is clarity regarding their application.

Cabinet Response: We agree.

It is important to address operational elements of the model not fully addressed in current guidelines or not included at all. Document them so that the colleges can better plan their budgets, manage FTES and develop strategies based on the expectations of the district and board.

By incorporating a clear process for dealing with these types of issues the model will function more efficiently and have a greater chance of long term success.

The narrative in the set of recommendations above is a bit lengthy but intended to help the district understand better the points being made. Further the district could consider a combination of actions to achieve the goal. For instance if the district was able to lower assessments and the colleges were able to achieve some efficiencies then maybe a net revenue shift of \$385,000 to CHC would be sufficient. Again the point being made is that the district is not limited to one or another action but should consider a combination of actions that achieve the objective with the least negative impact.

College Brain Trust Recommendations Related to Operational Issues

CBT Recommends:

1. That the district and SBVC prepare multi -year budget plans

Cabinet Response: We agree. District Fiscal Services has a multi-year budget allocation model that is currently being updated. Valley College is in the process of developing a multi-year budget plan similar to CHC's. Furthermore, Fiscal Services is currently exploring software solutions that include multi-year budget plans. It is critical that such systems interface seamlessly with payroll, HR and accounting systems.

2. The district strengthens and document its position control processes

Cabinet Response: This is a critical need, especially considering that the largest portion of the budgets are for salaries and benefits. Human Resources, Fiscal Services and TESS are currently exploring software solutions that include position control. It is critical that such systems interface seamlessly with payroll, budget and accounting systems.

3. That the district find a means by which it can provide timely access to expenditure data to the college administrative staff

Cabinet Response: We agree. Fiscal Services and TESS are currently reviewing various software applications that can supplement or replace the San Bernardino County Schools systems that SBCCD now uses.

4. That SBCCD ensure the integration of the Educational Master Plans, Capital Outlay Master Plan, and Technology Master Plan to inform and guide the annual resource allocation process

Cabinet Response: We agree and this is also critical for accreditation purposes.

5. That SBCCD review its strategy for FON compliance to determine the level of full time faculty positions over the minimum FON it should fund

Cabinet Response: FON statistics and compliance are reviewed by the colleges, the District and Cabinet. Business Services works closely with the colleges to monitor current and projected FON levels, and to predict faculty levels necessary to meet future FON requirements.

6. If the actual full time faculty count is to be reduced it is recommended that CHC be allowed to lower its number

Cabinet Response: CHC and Valley College are currently in growth mode (5.9% this year), therefore we do not recommend reducing faculty at either campus at this time. In addition, both colleges have several disciplines with only one fulltime faculty member and it would not be possible to reduce fulltime faculty in those disciplines. Both colleges should assess the fulltime faculty required to accommodate its current and projected growth. Both colleges do not recommend transferring faculty from CHC to Valley College.

7. That CHC set a goal to reduce costs of administrators by about \$250,000

Cabinet Response: CHC and Valley College are currently in growth mode; therefore we do not recommend reducing administrators at this time. Cabinet does recommend that both colleges conduct a comprehensive review of its administrator staff requirements, and make such adjustments as necessary over a reasonable period of time. CHC is committed to making staffing adjustments by critically reviewing vacancies, eliminating unnecessary positions, and moving vacancies to match critical work needs.

8. That SBCCD set productivity goals along with FTES goals for each of the colleges

Cabinet Response: We agree.

9. That CHC set a goal to reduce costs of classified positions by about \$200,000

Cabinet Response: CHC and Valley College are currently in growth mode; therefore we do not recommend reducing classified staff at this time. Cabinet does recommend that both colleges conduct a comprehensive review of its classified staff requirements, and make such adjustments as necessary over a reasonable period of time. CHC is committed to making staffing adjustments by critically reviewing vacancies, eliminating unnecessary positions, and moving vacancies to match critical work needs.

10. The district decide how FTES growth will be allocated to each college

Cabinet Response: Since 2010, the District has allocated growth targets to each college based on the prior year FTES split. Either P-2 or Advance Apportionment has been used as the base for FTES projections, plus or minus any target adjustments. As previously stated, the colleges may use their funds and ending balances to pay for additional FTES,

and be funded accordingly based on actual State funding per the SB361 model. Cabinet will continue to review FTES production annually and establish annual FTES “targets”. Allocations will be based on actual performance.

11. That the colleges discuss possible consolidation of administrative functions that could financially benefit both colleges

Cabinet Response: This is currently under review and recommendations will be discussed in Chancellor’s Cabinet in the near future. This should be discussed at the District Budget Committee.

12. The college review bookstore and cafeteria operations to determine feasibility of self-sufficiency or if outsourcing is the appropriate solution

Cabinet Response: We agree.

13. The colleges review the college foundations to ensure self-sufficiency

Cabinet Response: We agree. The Colleges will review the level of general fund support given to the Foundations and will reduce where possible over time.

14. To the degree that recommendations identified for CHC have applicability to SBVC we would encourage SBVC to consider them as well.

Cabinet Response: We agree.