Resource Allocation Model Taskforce

Meeting Minutes

May 12, 2017 // SJCC, T-112 // 1:00 p.m. to 4:00 p.m.

Members Present: Eric Narveson (Academic Senate – EVC), Fabio Gonzalez, (Academic Senate – District), Guillermo Castilla (Academic Senate – SJCC), Barbara Hanfling (AFT 6157), Doug Smith (Administrator – District), Peter Fitzsimmons (Administrator – District), Keiko Kimura (Administrator – SJCC), Lauren McKee (Administrator – EVC), Dan Hawkins (CSEA – District), Steven Graham (Academic Senate – EVC), Jorge Escobar (Administrator – SJCC), Andrea Alexander (Administrator – EVC); Yesenia Ramirez (CSEA – EVC)

Members Absent: Jesus Covarrubias (Faculty – SJCC)

Alternates Present: Chris Frazier (Academic Senate - SJCC), Mark Newton (Faculty-AFT), Eugenio Canoy (Administrator), Paul Fong (Faculty-AFT)

Also Present: Roy Stutzman (RAM Consultant, via phone), Sherri Brusseau (Recorder), Jonathan Camacho,

1) Call to Order – 1:16

2) Approval of 05/12/17 Meeting Agenda – M/S/P; Ayes- 14, Opposed-0, Abstentions-0, Absent-1, a Motion to approve was made by Eric Narveson; Seconded by Dan Hawkins. The amended agenda was approved with the following change:

- Items 4 & 5 were moved down the agenda to follow #9.

3) Approval of 05/05/17 Meeting Minutes- M/S/P; Ayes- 14, Opposed-0, Abstentions-0, absent-1, A motion to approve the minutes was made by Eric Narveson; seconded by Yesenia Ramirez. The minutes were approved as submitted.

4) Simulations:

Mr. Stutzman notes that at this point simulation #7 is what he would recommend to the district and wants to ensure an understanding of what is in this simulation.

a) The numbers used in this simulation are the numbers from the FY16-17 adopted budget.
b) Simulation #7 uses a 3-year rolling average to level the impact between the two campuses in case there are significant movements from one year to the next.
c) The FTES reflects what was reported on the 320 report.
d) Property tax revenue is taken from the adopted budget. The basic allocation of $30M is being allocated as a basic allocation, it is a sum that is split equally between the two

colleges to presumably cover the fixed costs regardless of size. The balance of the property tax revenue is distributed based on FTES, 3 year rolling average.

e) DW/DS costs are assessed on an FTES basis. If the college has fewer FTES, they will be assessed less based on that service level, as compared to a college with more FTES.
f) Colleges will retain all locally generated revenue (non-resident tuition, international students, etc.), accrues directly to the college. If there is a DW/DS cost associated with, for example, the international students it would be reflected in the upper portion of the simulation in the % of DW/DS assessments.
g) For the purpose of illustration, included in simulation #7 are the FY16/17 adopted budget expenditures to show the impact of the model. The model reflects the amount each college would have to bear if there is a deficit and DS says the funds are not coming from reserves, the colleges would have to make cuts in order to cover costs.
h) Mr. Stutzman prepared simulation #7 using 3rd quarter update figures. He pointed out that deficits reflected in both the original simulation #7 and simulation #7-3rd quarter update are not a function of the model, deficits are deficits regardless of the model. He also pointed out that historically, expenditures are usually less that what is in the adopted budget.
i) The 3rd quarter update reflects updated revenue numbers based on 3rd quarter, which shows an increase over what is reflected in simulation #7 (3-year rolling average). The 3rd quarter update also shows an increase in other revenue as well as expenditures that are less than budgeted. The bottom line is that if 3rd quarter numbers are realized, neither college will have deficits based on this simulation. Any surplus that occurs at the college, stays with the college.
j) The question was posed as to what happens if there is a deficit in spending? Is there a Budget Principle to handle this situation? Mr. Stutzman notes that if there is a deficit, the Board of Trustees and the Chancellor have delegated that authority to the Chief Business Officer, but Mr. Stutzman also notes that if you manage your budgets properly, you should not have deficits. The goal is to end up exactly where you say you are, if your budget is managed well.
k) Mr. Smith notes that there is an art and a science to managing your budget and his goal is stability in the organization. The District's Fund Balance is below the statewide average. He also notes that deficit spending in one year is ok, sequential overspending over multiple years is what we need to guard against.
l) DS/DW costs are actual costs. We have to agree on a reasonable allocation % for DS and DW, which would not be adjust yearly but could be adjusted following a review of costs. DS and DW have to manage their budgets just as the colleges do. If there is a surplus at the end of the year, that money would stay with DS and DW.
m) Mr. Smith points out that while DS is a defined %, DW is a variable % based on actual costs (if electricity goes up, need to be able to pay it).
n) Mr. Fitzsimmons states that we need to have a discussion to determine what should be considered DW vs. DS expenses. Mr. Smith adds that we also need to define expenses that should be DW and those that are the responsibility of the colleges, i.e. campus discretionary budget. DW needs to be evaluated wall to wall.
o) Mr. Castilla questioned "What is the art of being a CBO?" Mr. Smith responded that there are various constituent needs (i.e., collective bargaining, college based needs) and you need to find the sweet spot where not everyone is happy, but we can all live with it.

Mr. Smith's goal is to have a fund balance that is lower than the statewide average and lower than other basic aid districts, but to have an appropriate fund level balance given all the uncertainty of the variables.

p) Ms. Alexander states that EVC is willing to take the slight loss represented by the 3-year average as long as there is no quibbling college to college over the base allocation of $15M. Things change year to year for both campuses and quibbling over the base allocation of $15M would be unfair to both the students and the services the campuses offer.

q) Mr. Escobar agrees with Ms. Alexander 100%, however he feels that when looking at the bottom line, the Q3 numbers are accurate but are not real. The numbers do not reflect the day to day business of the colleges.

MISP Resource Allocation Model

a) Mr. Escobar feels that the model he presented at the May 5th meeting is more transparent and clear and can account for the application of effort and overhead for the services of the college and District. This model may become the target model as it can account for FTES more accurately, as FTES can be broken out by enrolled, graduated, dual-enrolled, cross-enrolled, etc.… Mr. Escobar will show these as line items under #a on the MISP model. The second element he would like to incorporate is that we don't have just one bucket but buckets that would reflect the different measures.

b) Mr. Narveson clarifies that Mr. Escobar is suggesting that FTES can be measured by different qualities and wonders how that works. Mr. Escobar responds that he is trying to be sensitive to the different cost measures and that we want to make sure we understand the cost elements associated with each of these types of FTES.

5) <u>Review of draft Business Procedures (cont.)</u>

a) Mr. Stutzman continued with his review of the Business Procedures. It is agreed that on page 11, under Long Term Plans, District Services, District-wide services needs to be removed. By including District-wide expenditures here, it locks in expenditures which is a concern as these expenditures (utilities, audit fees, legal fees, etc.) are beyond the District's control.

b) Reserves and Deficits – Mr. Escobar feels that a 5% reserves accrual is too much. He also believes that shared services (health services, student services, etc.) should not carry money over, they should spend their money every year.

c) Mr. Stutzman pointed out that SJECCD makes a lot of demands on District Services, which creates the most detailed budget reports he has seen and also notes the minutes created from the RAM meetings are also the most detailed he has seen, as per the request of the committee, and requires a lot of time on the Admin Services staff. This needs to be acknowledged. Mr. Stutzman does not accept that DS spends too much money. It requires more data than anyone has at this point to determine what the appropriate level of DS funding should be. Mr. Escobar points out that creating the budget reports is a shared responsibility between the colleges and the Fiscal Services staff.

d) Mr. Graham questioned the second paragraph on page 12, the last line that states that if reserves exceed 7% the amount in excess of the 7% will be divided with 60% retained by the location and 40% being re-directed to District-wide services. Mr. Smith notes that he represents the budget to the Board of Trustees several times per year and that he vets through District Budget Committee and his presentation is based on their council. SJECCD checks and balances are very good.

e) Mr. Stutzman suggests that the excess reserves could be transferred to the innovation fund.

f) The purpose of the Business Procedures is to put flesh on the Resource Allocation Model, so it is clear how the model works and what happens if certain contingencies occur and how to handle them. Business Procedures have to be backed by Board Policies and Administrative Procedures.

6) <u>Key Issue Statements</u>

a) Mr. Stutzman reviewed the Key Issue Statements in an effort to see if any of the issues have been resolved.

1. Position Resets- when a position is vacated, the budget is reset. Position budgets are based on a pre-determined assumption. With the new RAM, this issue will become a thing of the past. Each college is responsible for their own budgets, including the hiring for positions. It all works out in the end, some will take the higher end benefits and others won't. Also, since the colleges are responsible for their budgets, the ceiling between moving funds between personnel and discretionary will also become a thing of the past, again because the colleges are in charge of their own budgets.
2. The primary metric driving the new model is FTES.
3. Mr. Stutzman notes that program review at the District level should not affect the new model. Program review is a college issue. He also notes that funding for new programs should come from other means, not from the model.
4. We need to look at DW/DS costs and how they relate to the model. Cost that are considered DW need to be identified.
5. How do we guarantee funding to pay for medical benefits and raises? As in the past there is no provision in the model that says all funds get distributed. You have to allow for collective bargaining.
6. Allocating for Adjunct Faculty is a college decision through the new model.
7. Total Cost of Ownership – Colleges need to plan for this when purchasing items, i.e., if 5 new computers are purchased, the college is responsible for those items and the total cost of ownership. No additional funding for this.
8. Reserves – the Board of Trustees feel that 7% is enough to hold in reserves.
9. Mr. Gonzales raised the concern that the campuses receive funding from Workforce Institute and should therefore be included in the Resource Allocation Model. There has to be accountability for how those funds are spent. Mr. Stutzman notes that these funds are considered categorical/grants are therefore not part of Fund 10 and are not incorporated in the RAM. Mr. Fitzsimmons stated that there are other programs that allocate funds that are not location specific and agrees that there needs to be a process for how decisions are made to split funds that are not location specific. Mr. Fitzsimmons does not agree that it should be in the RAM as the RAM is for Fund 10 only, unrestricted. He does agree that there should be a process for how those funds are allocated to each of the locations, but it would be separate from the RAM.

10. Funding for Milpitas comes off the top, which reduces the amount available to be allocated to the colleges.
11. After reviewing the Key Issue Statements it was agreed that while the RAM does not address all the items on the list, some were addressed and a good number of them are outside the scope of the RAM. Mr. Narveson states that this list started out as the elephants in the room, it was an airing of grievances that for some was cathartic.
12. While Ms. Alexander agrees that the exercise was cathartic, there are many things that phase 1 of the RAM does not address (position reset, benefits, salaries), systems that are not fully optimized but that the colleges are going to have to figure out. Ms. Alexander feels that the Key List of Elements is a viable part of the committee and can't be just set aside, just because we are moving towards a revenue based model.
13. Mr. Smith agrees that the RAM is a phased in process.
14. Mr. Fitzsimmons taking the Key List of Issues and sorts the list into columns: does it solve it, does not yet address it, not applicable to the model. All agree.
15. Mr. Escobar volunteered to create the spreadsheet based on the Key List of Issues.

7) <u>2017 Principles for Budget Development</u>

b) There is consensus to have Mr. Stutzman complete the 2017 Principles for Budget Development and present both the draft and completed version to the committee.

8) <u>Checkout</u>

Mr. Stutzman says that the committee needs to come to grips with the fundamental differences between simulation #7 and the concepts embodied in Mr. Escobar's simulation. Simulation #7 allocates 30% of property tax on basic allocation, allocation is made regardless of college size. The balance is distributed based on FTES. Mr. Stutzman feels that this is a happy medium. FTES is the best measure right now for service level.

Mr. Escobar's model distributes all funds 50/50 and provides 20% and 25% for DS and assumes a $5M reduction in DS expense. Mr. Stutzman feels this is unreasonable without having any data analysis.

Mr. Stutzman will put together his recommendation and present it to the Chancellor.

Mr. Frazier will recommend against the Academic Senate passing any model that is based on FTES and notes we have not discussed the organization of District Services. His recommendation is to let the RAM taskforce committee go and have the Academic Senate write the model on its own.

Ms. Kimura stated that the College Budget Committee does not like the simulations and believes we still have work to do. Ms. Kimura does believe that FTES is a variable that should be included, however we need to know the cost of educating a student in a particular program. If the colleges are expected to be accountable in some way like FTES, and the goal is to not fight, then we all have a responsibility to identify targets. Ms. Kimura is in support of developing the spreadsheet of key statements.

Meeting adjourned at 4:14 PM.