To: President Mitsui
Cc: College Council
From: The Budget Advisory Committee
Subject: Report on Budget Plan FY 1314

Introduction: The BAC met initially to review in detail the memo sent to us by President Mitsui to understand our objective and the scope of our undertaking. Unlike the previous year (planning of FY 1213), in which the committee's assignment was to validate a budget cut, this year's work has been to validate the college's ability to increase spending in support of the Strategic Initiatives (SI) requests and "set-asides" (SA). Set-asides represent money requirements outside the scope of the SI process.

The committee sought to answer these questions:

Where is this money coming from?
Is that source valid?
What risk factors can negatively affect it?
What is the sensitivity to risk; and, can it be estimated?

In addition to the above, BAC reviewed other budget elements that could indirectly impact the college's ability to fund the SI/SA items. This included a review/analysis of the district's FTES tuition revenue shortfall, the concepts and technical details of converting international FTES to state-funded FTES (aka, "counting international enrollments"), including the cost of the conversion. These elements affect not only the SI/SA, but the entire operating budget as well. The committee also conducted a review of each line item in the proposed SI/SA.

As groundwork for our analysis the committee examined the following factors:

Operating Budget Funding Sources
Part-Time Faculty Budget
Tuition Revenue & Tuition Shortfall
Regular Tuition vs Intl Student Tuition
Converting International Students To Regular FTES
International Student Revenues – Overview, SI Funding Model, & Risk Factors

Each of these factors is briefly described below. Please note that the committee paid particular attention to the generation and use of international student revenues, the model for funding SI's, and the risk factors affecting that model.

Operating Budget Funding Sources: the college's operating budget is funded from the following sources – state appropriated funds (aka "hard money"); tuition revenue; international student revenue (college level programs); Running Start revenue; and indirect cost recovery. BAC noted that all sources other than state appropriated funds are considered "soft money"; i.e., they must be earned in the year spent and are therefore less stable. We also noted that "hard money", as a percent of total budget, has shrunk to roughly 50% in comparison to approximately 61.5%, over the past five fiscal years (FY 1112 v FY0607) [Schedule A], with the difference being made up for by increased reliance on soft money – primarily student tuition (37% v 27%) and international student revenues (7.6% v 5.8%). In other words, as hard money has shrunk, the college has had to put increasing reliance upon less stable money sources.

Part-Time Faculty Budget – BAC reviewed established budget practices and the historically consistent practices the college has employed to fund the work of adjunct faculty, which is the largest variable cost factor for the college.

Tuition Revenue & Tuition Shortfall: the committee reviewed information re. FY 1213 tuition revenue generation and the potential budgetary impact of a shortfall. BAC also familiarized with three basic possible outcomes of an adjustment for a tuition shortfall in FY1213 [Schedule B], and the possibility/effect of a permanent level adjustment of the college's tuition allocation in FY 1314. One of these possible outcomes is that the college finishes with an operating balance, most commonly referred to as "***carryforward***". The committee made sure it understood carryforward conceptually, and familiarized with how this funding source has been used by the college in past years.

Regular Tuition vs Intl Student Tuition: BAC familiarized with the difference between regular tuition (aka state tuition) and international student tuition (aka international student revenue), in preparation for a discussion of methodology for converting college level international students to state funded FTES.

Converting International Students To Regular FTES: BAC familiarized with the methodology of converting FTES, and reviewed current information to ensure its understanding of the effects of the "18%" conversion factor and its equivalence in dollars (roughly $1,500 per FTES converted) [Schedule C].

International Student Revenues (ISR) – Overview, SI Funding Model, & Risk Factors: as mentioned above, BAC spent significant time developing an understanding of how ISR is budgeted, generated, and spent (a pivotal element is the amount of money used each year to directly support the college's permanent level operating budget; that amount is currently $2.35M, not including support from indirect cost recoveries; this will be discussed in detail later). ISR in this context includes *both the college level international program and the intensive English program*; this narrative will refer to the two programs combined as **International Programs (IP)** from this point forward. The committee studied the model and calculation used to project an FY 1213 operating balance of approximately $2.6M for IP. Because this projection, and the model behind it, is critical to the college's ability to actually fund the SI/SA, the committee first examined it critically and ***confirmed its validity*** for projecting IP/IEP FY 1213 operating balance.

Important note: the $2.6M projected operating balance just described has already been largely committed to support FY 1213 needs, as a supplement to the college's operating budget. These commitments include the Unmet Needs process, and substantial contingencies for shortfalls in PT Faculty funding and tuition revenue generation. A critical point is that in committing $2.6M to support FY 1314 SI/SA, the college is asserting that IP will again generate an operating balance of $2.6M; i.e., that IP will ***duplicate its FY 1213 performance in FY 1314***, at minimum; and, that ***FY 1314 result will be used to pay for the FY 1314 SI/SA*** **[Schedule D]**.

<u>The above answered our first and second questions</u>: The money will come from IP revenues generated in FY 1314, and that source is valid. However, the source is also subject to some risk. The following describes our work to answer our third and fourth questions – what are the risk factors; and can sensitivity to risk be estimated?

BAC discussed risk factors that contribute to the inherent volatility of <u>any</u> IP program (natural disaster, domestic/international incident, personnel changes, etc.). Please note that the committee considers our IP program to be *outstanding*, and well appreciates its importance to the college's fiscal health. The risk factors we discussed are, in our opinion, common to all IP programs. We then examined a draft "worst case" scenario created earlier by the college's budget office with some input from the IP office, to estimate the effects of a severe enrollment drop (approx. 42% or 441 students) [Schedule E].

In order to further estimate sensitivity, BAC then used the same model to calculate what drop in enrollment would result in ***zero operating balance***, assuming other factors (except for variable costs) remained essentially unchanged. The result of this exercise indicated that an enrollment drop of approximately 35% (365 students) would bring IP to zero operating balance, assuming other factors remained constant [Schedule F].

<u>Note</u>: the significance of the "zero operating balance" measure is that – at that point – there would be ***zero funding available to support the SI/SA items***, unless the college resorts to use of existing IP fund balances or an alternative back-up source.

As a final exercise, BAC made conservative estimates of three key SA items it anticipates will or could readily become permanent level *additions* to the amount of support IP already provides to the college's operating budget - employee reallocations $100K, permanent level tuition adjustment $300K, and faculty contract effects $300K. BAC then added these items (totaling $700K) to the current $2.35M operating support (for a total support amount of $3.05M), and ran the model. The result indicated that the zero operating balance occurs at an approximate 27% drop in enrollment (280 students). [Schedule G] It must be noted that ***adding $700K to the operating support figure entails subtracting it from the original SI/SA amount to avoid double counting the overall*** ($2.6M-0.7M = $1.9M remaining need).

<u>Summary of our findings on SI/SA</u>: the funding model for SI/SA ***is feasible, provided a steady state exists***. Basically, funding $2.6M in SI/SA assumes IP performance in 1314 will be a duplicate of FY1213. Drops in IP enrollment will negatively affect the planned SI/SA funding level. BAC strongly recommends a ***further analysis to solidify the college's understanding of this dynamic and enable it to proactively establish checks and balances on spending levels, and provide for contingency measures.*** This recommendation will be further described in the conclusion to this report.

Questions to President Mitsui and the Vice Presidents

As mentioned earlier, in addition to the above analysis of the SI/SA funding model, the committee examined and discussed the detail list of SI/SA requests provided to the College Council (J Bautsch 5/16/13). The committee is appreciative of having received this valuable and informative document. As a result of its detail review of these requests, the committee formulated and submitted a number of questions addressed to President Mitsui, and Vice Presidents O'Keeffe, Monterecy, and Myer. Those questions, along with commentary from BAC are presented below. The committee is grateful to President Mitsui and the Vice Presidents for the importance placed on replying to these questions, and for their time and effort in doing so.

1. **<u>Question addressed to President/VPs</u>**: In regards to staff salary requests, if the positions are identified as 'on-going needs', why are they being included in the strategic initiatives as a onetime/one year need request, instead of being funded on a permanent basis?; e.g., the custodial and maintenance mechanic positions requested by Admin. Services (SI #2 & #3).

<u>BAC Comment</u>: The committee received a reply to this question from President Mitsui. In reviewing this response, a discussion ensued in which the committee worked on clarifying its position re. the balance between funding what it considers 'ongoing needs' and funding transformative endeavors to move the college forward into the future. BAC settled on a recommendation that the college ***recognize and fund on a permanent basis, positions that fill "basic operational needs"; and, that the annual cycle of review/renewal of funding be limited to positions and programs that do not fit that criteria***. In that vein, BAC also recommends that the ***custodial and maintenance mechanic positions be made permanent***.

2. **<u>Question to President/VPs</u>**: Why aren't important positions/needs, such as additional custodians and loft tutor salary increases funded, rather than directing funds to goals less essential to the college's ongoing needs?

<u>BAC Comment</u>: BAC received replies to this question from both President Mitsui and Vice President O'Keeffe. After studying those replies and discussing the issue of tutoring pay increases, ***BAC is supportive of pay increase for tutors***. The committee recommends this for approval by the Executive Team.

3. **<u>Questions to President/VPs</u>**: What is the process/procedure for eliminating Strategic Initiatives positions after one-to-two years; i.e., post Accreditation 2016? What administrative authority will preside over the college's carrying this out?

<u>BAC Comment</u>: BAC received a reply to this question from President Mitsui, and now understands that the review process for SI's will be engaged in annually and those initiatives that do not adequately contribute to the accomplishment of our mission and core themes will be eliminated. The administrative authority over this process is the President. The committee has no further question. However, it does see a potential flaw in tying actions to benchmarks if departments are allowed to ***"stretch the benchmarks";*** i.e., if SI's are approved without having been ***strenuously evaluated for their direct connection to mission/themes/and the specific benchmark.***

4. **<u>Question to President/VPs</u>**: Which funded SI's directly address the college's immediate challenges of enrollment decline and tuition shortfall?

<u>BAC Comment</u>: President Mitsui replied to this question. The committee very much appreciates his thorough answer, and has no further questions. However, we do have some observations re. the BAS program which will be offered later in this document (see #9 below).

5. **Question to President's Offc**: Please describe the reasoning behind creation of a full-time support person for the NSCC Employee Services Office (HR). For example, what changes in work demand upon the ES Office have contributed to the need to establish this position?

President Mitsui replied to this question. The committee reviewed the information provided and has no further questions, but will offer a suggestion later in this document (see #8 below).

6. **Question to President's Offc**: What is the value added of supporting the BAS COORDINATOR ($50K); i.e., what does the money go for, and what does the college get back in return?

BAC Comment: President Mitsui replied to this question, and the committee has no further questions. We understand this to be an FY 1314 commitment for the college that cannot be revised at this time.

7. **Question to President's Offc**: Is the $19K Mural Project (#52) separate from the $50K Innovation Fund (#39), or should the Mural Project have been included in the Innovation Fund allotment?

BAC Comment: President Mitsui replied to this question, and the committee now understands that the Mural Project is separate from the Innovation Fund request. We have no further questions.

8. **Question to President's Offc**: Why does the college need the Staff position supporting Opp Council and TACs (#53)?

BAC Comment: President Mitsui replied to this question. As a result, the committee now better understands the importance of this SI to maintaining our momentum in improving and sustaining our relationships with our local community (local government, community and business associations, and so forth). BAC supports this need to staff this position. However, ***we suggest that the Executive Team consider the possibility of combining this position with that of the Employee Services (HR) Assistant***; i.e. tailor this requirement to fit into the responsibilities of an existing position.

9. **Question to Instruction**: Is pursuing 2 BAS programs feasible? Why it is necessary to start the second BAS before the first BAS has proven sustainable? Under the SI's approved, the college is committing $250K in start-up costs, which appears to be a permanent commitment once the programs commence.

BAC Comment: Vice President O'Keeffe replied to this question. The committee appreciated this input, and after reviewing it spent considerable time discussing our understanding of the funding model, and the potential budget implications of both BAS programs (Intl Business and Software Engineering). As we understand it, funding of these programs is based exclusively upon tuition generated by the programs themselves. Unlike earlier established BAS programs, North's will not have benefit of an FTES allocation nor the associated hard funding that comes with it; i.e., although the BAS FTES will count towards meeting the college's existing FTES allocation, there are no additional funds coming to the college as a result.

Technically speaking, there are additional budget factors to consider. The full-time faculty (FTF) position established for the International Business (IB) BAS program was made possible by reallocation of an existing, funded, FTF position in the college's regular program. Therefore, the college will have less funding for faculty costs in its regular (non-BAS) programs unless replacement funding is provided. That funding does not appear to be provided for at present.

Another technical element is that the college cannot add to its permanent level budget (for BAS, or any other program) unless one of four things occur: 1) funding is provided for the added item by reduction in an existing item (as was the case for the IB FTF position just described); or 2) the college receives an increase in its funding level through increased hard funding (i.e., an increase in its FTES allocation); or 3)the college receives an increase in its tuition allocation; or 4) the college increases its permanent level funding from another source, such as IP revenues, indirect cost recovery, and so forth. Of these four, the establishment of a permanent level budget for the college's BAS programs appears dependent upon number 3 – the college receives an increase in its tuition allocation. In other words***, the district would need to add to the college's funded level for tuition revenue, in order for the college to increase its budget level, in turn, to establish the line item amounts for BAS***. At this time, the committee is unclear as to whether or not the college will receive this increase and the committee suggests the college ***clarify this point with the district budget office***, if it has not already done so.

Given the potential effect of the above factors on the viability of the BAS funding model, the committee is obligated to respectfully recommend that the college ***push back its implementation of the Software Engineering BAS until the funding model is validated through experience with the Intl Business BAS program***.

10. **<u>Question to Instruction</u>**: Re. BAS Programs: How was the revenue stream calculated? In particular, looking at the International Business BAS, its anticipated student enrollment is 20 students/quarter in the 1st year, then 40 in the 2nd year, 45 in the 3rd and 55 in the 4th year.

<u>BAC Comment</u>: Vice President O'Keeffe replied to this question. BAC's perspective and technical input re. the BAS funding model is provided in #9 above, and we do not have further questions.

11. **<u>Question to Administrative Svcs</u>**: What are the costs/benefits to paying down the debt of the Food services account; why can't this be delayed and/or extended over a greater number of years?

<u>BAC Comment</u>: Vice President Monterecy replied to this question. After deliberating the pros and cons of clearing the Food Services deficit over four years, the ***BAC recommends the deficit be cleared in one year rather than four***. The committee's opinion is that there is value added in establishing a clear point of demarcation at which the accumulated negative financial effect of past years' performance is eliminated, and the program is given both the benefit of a fresh start, and the accompanying responsibility to operate at "break-even", at minimum. In contrast, the proposed four-year plan delays arrival of this dropping off point, and prolongs the difficulties involve in tracking real progress for the program in the accounting records.

12. **<u>Question to SDS</u>**: What funding will be available to shore up college Workstudy, if the proposed $50K is inadequate to cover the projected Need?

<u>BAC Comment</u>: Vice President Myer replied to this question. Having reviewed and discussed this reply at some length, ***the committee strongly recommends that the Executive Team revisit supplemental workstudy funding (SI #66) to ensure that the level is adequate to cover the anticipated need along with an additional amount for contingencies***. As is well understood by the college community, the workstudy program is a true win-win situation in which students receive much needed compensation while providing valuable services to the college. It is a unique opportunity for the college to directly demonstrate its support of student success and should therefore be placed high in the college's funding priorities.

13. **Questions to SDS**: If such a shortfall is reasonably expected, would it not be better to increase this funded item, instead of something less directly supportive of enrollment level?

BAC Comment: Vice President Myer replied to this question, related to #12 above, and the committee has no further questions.

Closing Comments

The BAC again thanks President Mitsui and the Vice Presidents for the importance placed upon this process, and for their prompt and thorough responses to our requests for assistance in our efforts. In order to complete its work, the committee respectfully offers the following additional recommendations and observations.

As already stated, the committee confirmed that the funding model for Strategic Initiatives and Set-Asides is feasible. However, the risk factors we have also described are significant, particularly the sensitivity to a drop in enrollments in the International Program. For this reason, the committee ***strongly recommends that the funded SI/SA requests be prioritized, and that a plan be developed for staged implementation of the SI/SA to allow for adjustments for spending levels in the event of a sudden downturn in IP revenues***. It should be noted that the committee reviewed existing IP fund balances and is satisfied that those balances are an adequate stop-gap to such a downturn in the short term. However, the committee must also point out that the priority for such contingency funding should be placed on the college's primary operations, i.e., the permanent level operating budget.

In closing, as in last year's report, the committee feels obligated to inform the President and Executive Team of a potential campus-wide issue that was identified in the course of its discussions. Specifically, while reviewing the proposed $100K Set Aside for personnel reallocations, our discussions brought to light the existence of a sense of unfairness among Classified personnel regarding approvals and denials of reallocation submittals. The unfairness aspect, as understood by some committee members, is significant enough to have precipitated a palpable drop in morale in some college offices. It is the morale aspect in particular that the committee feels worthy of mention in this report.

The committee thanks the President for his support, and for the opportunity to serve the interests of the college.