

## **Comments with respect to the adoption of the Formal Budget for Fiscal Year 2010**

We are required by law to have a formal, adopted budget. It is incumbent upon the Governing Board to provide a tentative and final budget according to specified timelines. The budget that has been provided to the Chancellor and then recommended to this Governing Board is for a fiscal year that is 80% completed.

The recovery team assembled and headed up by Tom Henry has put forth a yeoman's effort to pull together data from throughout The Peralta Colleges to put forth this document. But we need to recognize the shortcomings of the budget before this Board and I would propose that the minutes of this session explicitly describe the limitations. We need to recognize that this institution will be called upon to provide an approved, tentative budget for Fiscal Year 2011 to the Alameda County Superintendent of Education on or before the 1<sup>st</sup> of July 2010.

The document before this Board will provide the basis to develop next year's budget. I consider that to be the most important aspect of this budget document. It is a start.

I would expect the Chancellor to provide the tentative budget to the Audit and Finance Committee by 10 June 2010 and to the full Board meeting on the 22<sup>nd</sup> of June 2010 in a format that can be readily understood by the stake holders of this institution and the public. This Governing Board must be in a position to understand what they are approving in terms of this resource allocation process. I would strongly suggest that all Board members and stake holder leadership receive an electronic copy of the tentative budget no later than Monday the 14<sup>th</sup> of June. I would further propose that the tentative budget be placed on the institution's web site by the 14<sup>th</sup> so that the public is given a reasonable length of time to review and analyze the document and provide input to this body.

The budget document before us describes the financial conditions of the state and the prognosis through the 2015 timeframe. The State Chancellor's Office calls for a very conservative approach to resource allocation. The State

**Chancellor himself has called for us to “downsize” so that we put ourselves into a position to do what we do with a reasonable level of quality. In other words, we must cut back on quantity, or breadth of service, to preserve quality. We have short-term, intermediate-term and long-term issues that must be taken into consideration.**

The Benefit category was specifically highlighted in this budget document as an area that must be reviewed, analyzed and reduced. It is substantially larger than our peer institutions throughout the state. We must make some dramatic changes in our healthcare program. The costs are totally out of control.

The Board needs to understand that a lot of the numbers in this document are educated estimates. We fully recognize the severe constraints that the recovery team was placed under due to a lack of data availability and severe timelines. It is not going to get any easier for the balance of this calendar year.

The Board expects the Chancellor to close the financial books for the Fiscal Year 2009 by next week and to have an external audit completed no later than the middle of May. The goal is for this institution, The Peralta Colleges, to provide a clean and unqualified opinion to the ACCJC/WASC before they convene their June session. The Board expects the Chancellor to prioritize operations and allocate necessary resources to make this happen.

It is important for the Board members and stakeholder leadership to read and understand the assumptions and constraints set-forth on numbered pages 4-6.

The 2009-10 Final Budget development was initially based on the operating budget maintained by the Finance Department during late 2009. The operating budget was analyzed to determine if the operating budget allocations were appropriate based on known actual revenue and expenditures projected to the end of the year. Also, the budget was reviewed to determine if known decisions made by the top management were implemented in the budget. The primary tool used to review the finances was a new Budget Monitoring Report which is provided as an appendix to the budget for informational purposes. The approach used to prepare this budget was not the normal planning methodology, but rather a confirmation of, and accounting for, events that have already occurred. As such, this budget development did not include the normal participation by the district community.

Top management at the colleges and the district were asked to validate the information and/or provide corrections where issues were noted. It is expected that further corrections to the budget will need to be made at year-end closing. These changes will be brought to the Board of Trustees for approval if they affect the total amount budgeted at the major object level.

As a result of the analysis and budget development, changes will be made and reflected in the year-end closing. A percentage of the budget reductions below have been made and reflected in the 2009-10 budget. The Recovery Team continues to verify and reconcile the remaining amounts.

1. Site Budget Reductions decided, but not all posted:

\$461,972 Alameda Unrestricted Fund  
\$358,610 Berkeley Unrestricted Fund  
\$762,000 Laney Unrestricted Fund  
\$401,213 Merritt Unrestricted Fund  
\$687,210 Child Development Fund  
\$2,200,000 District Site Reductions 4

2. Large sums of money in the operating budget are listed inappropriately in “unallocated” (object 7xxx) line items. The prior practice of the Finance Office was to administratively transfer these funds to spending accounts during the year. These “unallocated” funds have been placed in an “Undistributed Reserve” budgets in this Final Budget presented to the Board of Trustees. The new procedure will be to require Board approval of transfers from the “Undistributed Reserve” items to the appropriate spending line item budget prior to any obligation being created to spend the funds. Listed below are the unallocated items that are presented in this budget as undistributed reserves:

\$118,524 Hazardous Materials Construction Fund  
\$4,330,602 Berkeley Construction Fund (Spec. Res. #1)  
\$110,453,820 Measure A Construction Fund  
\$571,698 Measure B Construction Fund  
\$1,706,920 Measure E Construction Fund  
\$15,155 Cal Trans Construction Fund  
\$13,280,204 Special Reserve Fund #2 (OPEB)  
\$576,802 Self Insurance Fund  
\$479,290 Student Center Repair and Replacement Fund  
\$2,799,225 Restricted Funds  
\$2,073,688 Unrestricted General Fund

3. There was no revenue or appropriations budget established for the Long Term Retiree Medical Benefit Debt (OPEB) Fund (94) in the 2009-10 operating budget. Additionally, Fund 94 (OPEB) has a significant realized and unrealized loss that hasn't been accounted for at this time.

4. There was no revenue budgets established for all funds in the 2009-10 operating budget other than the Unrestricted General Fund (1-10). This budget establishes those revenue budgets.

5. There has been very little expenditure posted to the Financial Aid Fund (89). The money is managed in a system called (SAFE) separate from the district operating budget. It is not possible at this time to accurately establish the status for this fund.

6. Detailed benefits budgets are incorrect throughout the operating budget as distributed to the sub-object level (first two digits). Since the major object (first digits), is correct, the budget presented to the Board of Trustees is only to the major object total. 5

7. Unrestricted General Fund (01-10) revenue was overstated since student fees receivable were recorded as revenue. All of these fees will not be collected. At this point, a conservative \$1,700,000 has been written off as uncollectible.

8. The following line-items in the Unrestricted General Fund (01-10) were underbudgeted. The amounts listed represent the necessary increase.

\$408,000 Faculty Parity Pay

\$4,000,000 Benefit Budget Increase

\$250,000 Fiscal Recovery Costs

\$1,000,000 Sheriff Contract underbudgeted

\$1,778,508 Debt Service for OPED bonds was underbudgeted

\$696,000 Repayment to US DOE for improper financial aid awards

\$1,157,655 DSPS Match

\$228,520 Federal IRS Return

9. The Benefits budget line item appears extraordinarily high, compared to other community colleges, as a percentage of total budget. A complete analysis should be done and restructuring recommendations should be completed prior to renewing existing expenditure obligations.

10. Certain restricted programs have understated expenditures during 2009-10 fiscal year due to the fact that employees are charged to the unrestricted programs instead.

11. All beginning balances are estimated at this time, as the District has not closed its financial books for fiscal year 2008-09.