

To: Interim President O’Keeffe
Cc: College Council
From: The Budget Advisory Committee
Subject: Report on Budget Plan FY 1415

Introduction: The BAC reviewed in detail the memo and accompanying schedule of funding requests sent to us by Interim President O’Keeffe (5/9/14) to understand our objective and the scope of our undertaking. We determined our work would be to provide a recommendation as to the feasibility of the college funding the schedule of requests (Schedule) as additions to the existing FY 1314 state operating budget.

The committee sought to answer these questions:

- What source of money is being used to fund the Schedule?*
- Is that source or sources valid/sustainable?*
- What risk factors should be considered?*
- What is the sensitivity to risk; and, can it be modeled to estimate fiscal impact?*
- What unfunded FY 1415 commitments, if any, are not included in the Schedule?*

In addition, BAC reviewed budget elements that impact the entire state operating budget and therefore indirectly impact the college’s ongoing ability to fund the Schedule. This included a review/discussion of the college and district FTES shortfall during FY 1213 and 1314; and the concepts, technical details, and actual cost of the college and district converting international FTES to state-funded FTES in FY 1314.

Where is the funding coming from?

The committee determined that the funding for the Schedule must come from either of two potential sources: the college’s **Contingency Reserve (CR)** or an increased dependence on **International Student Revenues (ISR)**. A specific potential source, currently held *within the Contingency Reserve* is an allocation of **‘new state permanent funds’**. This specific potential source, referenced in Interim President O’Keeffe’s memo to BAC, will be discussed later in this document.

Is that source or sources valid/sustainable?

The two sources are valid. However, an examination of the plan to fund all items in the Schedule led to questions as to whether or not that plan is advisable in light of several factors:

- The college’s current challenge in meeting its regular student FTES goal for the second year in a row, and its need in FY1314 to convert international student enrollments to state funded enrollments for the first time in its history.
- The cost of converting international FTES.
- The college’s increased spending over the past two years to meet (in FY 1213), and endeavor to meet (in FY 1314), the 96% threshold required by the state to avoid penalty (a.k.a. “stay out of the penalty box”).
- The interdependence within the Seattle Colleges District to meet the 96% threshold overall in order to avoid penalty (i.e., the inability of one college to meet the threshold can have fiscal implications for the other colleges).

What risk factors should be considered?

The committee examined and discussed several risk factors.

- The possibility that regular student enrollments will continue to decline, despite the continued efforts of the college to achieve its enrollment goals.
- The possibility that the college will succeed in its enrollment goals, but be fiscally affected by enrollment decline across the district.
- The risk of enrollment drop inherent in the college's International Students Program – both college level (a.k.a. the "IP" program) and non-college level (a.k.a., the "IEP" program) must be considered. Contributing factors include natural disaster, disease outbreak, domestic and/or international incident, personnel changes within the program, etc. An important added factor is that *only college level enrollments* can be converted to state funded FTES. Please note that these risk factors are common to virtually all international student programs. The committee believes our program is *outstanding*, and well appreciates its past and ongoing contribution to the college's fiscal health. However, it also cautions that the college should continue to be mindful of risks and avoid normalizing performance that remains subject to those risks.

What is the sensitivity to risk and, can it be modeled to estimate fiscal impact?

Returning to the two funding sources (Contingency Reserve and International Student Revenues), BAC considers the 'new state permanent funds' (a.k.a. 'Institutional Funding') to be stable for FY 1415, however the CR is very sensitive to changes in the college's level of Carryforward funding from year to year.

BAC focused on the college's sensitivity to International Student enrollment drop, reasoning that *any drop in the CR funding level will ultimately need to be made up for from International Student Revenue*. In that regard, BAC reaffirmed its understanding that IP and IEP enrollments drop suddenly rather than gradually, through discussions with the college's program director.

The committee continued its efforts (begun last year) to model the fiscal impact of changes in IP and IEP enrollment levels, adding to the model the effect of converting international enrollments to state funded FTES. The model was critically evaluated and found useful, and was therefore used as a contributing element in the conclusions reached by BAC.

What unfunded FY 1415 commitments, if any, are not included in the Schedule?

BAC spent significant time discussing and examining the college's historical use of the Contingency Reserve, with particular emphasis on its use to date, and projected balance, for FY 1314. It determined that the college has approximately \$2M in unfunded commitments for FY 1415 that are not included in the Schedule. These commitments are almost entirely the result of the college's need to fund adjunct faculty costs in FY 1415 at the same level as *actual expenditures* in FY 1314, which includes an expenditure overage of approximately \$431K, inclusive of benefits cost. This overage is further cited below as an element in modeling the CR for FY 1415. In discussing this overage, the committee concluded that it is in line with the college's concerted efforts to generate regular enrollments during the year to meet the 96% threshold requirement and limit its dependence on conversion of international FTES.

The committee concluded that these costs must be funded out of one or both of the same sources needed to fund the Schedule (CR or ISR). To evaluate the potential effects, BAC modeled a beginning CR of \$2.37M which included the current \$1.37M permanent funded level in the CR and a \$1M estimated Carryforward amount. Note that the \$1.37M *includes* the \$475,583 'new state permanent funds' referenced on page one of this document. It found that known, unfunded college commitments – *exclusive* of any Schedule items – would consume all but approximately \$200K of that \$2.37M. In other words, the modeled CR would be almost entirely committed at the start of the year, leaving the college only ~ \$200K for funding any Schedule items or unforeseen fiscal challenges that arise during FY 1415 [Attachment A].

The committee then modeled the CR to show the effect of using it to fund the permanent level items from the Schedule in an amount equal to the *actual* 'new state permanent funds' allocation received by the college

(\$475,583), in addition to the known, unfunded items. The effect is a *shortfall* of approximately \$247,000. In other words, using the modeled CR in this way would put it into deficit by approximately \$247K [**Attachment B**].

In plain language, the committee concluded that the CR is subject to limitations in its ability to handle both the known, unfunded college commitments and the Schedule items. The modeled CR, for example, could not accommodate both the described \$475,583 funding of permanent Schedule items and an overage in adjunct faculty cost equivalent to the \$431,285 amount it expects to experience in FY 1314 [**see Footnote ** in Attachment B**].

Questions to Interim President O’Keeffe and the Vice Presidents

As a result of the work described above, the committee formulated and submitted a number of questions addressed to Interim President O’Keeffe. Those questions, along with commentary from BAC are presented in **Attachment C**. The committee was also granted the opportunity to meet directly with Interim President O’Keeffe, Vice Presidents Monterey, and Myer, and Interim Vice President Lortz to discuss the responses to our questions in detail (5-23-14). The committee is grateful to Interim President O’Keeffe and the Vice Presidents for the importance placed on replying to these questions, and for their time and effort in meeting with us in person.

CONCLUSION & RECOMMENDATION:

Having evaluated the impact of funding the Schedule items from Contingency Reserve and International Student Revenues, the committee has concluded that funding new, permanent level items from the Schedule in FY 1415 is not fiscally advisable. The BAC recommends that if Schedule items are funded, they should be funded on a temporary basis. Additionally, any positions that are funded should have direct impact on increasing enrollment and retention of regular students (regular state funded FTES). These positions should be assessed during 2014-15 for their impact on increasing such enrollment and retention prior to making them permanent.

The above recommendation reflects the opinion of the entire committee. However, understanding that this opinion may not align with the conclusions of the Executive Team through its deliberations, (inclusive of the results provided by the College Council), the committee respectfully offers these suggested modifications to the existing college budget plan:

- Use the ‘new permanent state funds’ to solidify the existing adjunct faculty budget, rather than as a funding source for permanent items in the Schedule. This would not increase the adjunct budget, but instead eliminate a need for temporary funds by replacing it with permanent level funding.
- Limit the FY 14-15 Faculty Budget to the current FY 13-14 level of \$10.9M (inclusive of the \$200K reserve set aside), rather than the planned \$11.1M.
- Delay funding of temporary level items in the Schedule until after the beginning of FY 1415, when Carryforward and other funding elements are known with certainty.

The above is offered as a way of using new funding to address an existing, ongoing commitment, and also enhance the college’s flexibility in adapting to needs in the upcoming fiscal year (1415). It must also be noted that the committee was not unanimous in its decision to offer these suggested modifications.

Please note that a significant component of the committee's work in arriving at the above conclusion/recommendation stems from modeling fiscal impacts of known commitments and risk factors. While not overly complex (nor perfect), those models are best demonstrated in person rather than through a potentially confusing narrative in this document. The committee would be happy to provide this demonstration if considered of value by Interim President O'Keeffe and the Vice Presidents.

Closing Comments

The BAC again thanks Interim President O'Keeffe 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 closing, after substantial discussion, the committee offers a cautionary observation on the conversion of international student enrollments, which the college did for the first time in its history in winter quarter, FY 13-14. Conversion of international FTES should not be viewed as a remedy for the college's challenges regarding enrollments of regular students. It is more like temporary relief for a rather disagreeable condition, which potentially diverts attention from the existing, ongoing challenge of generating regular student enrollments. The committee built into its models an assumption that the college will need to continue converting international FTES at least through FY 1415 because, at time of writing, it does not feel it fiscally prudent to do otherwise [**Attachment D**]. However, the committee is also hopeful that conversions will not be necessary.

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