Navajo County Community College District
Governing Board Study Session Minutes

April 19, 2011
2251 East Navajo Boulevard, Holbrook, Arizona, 86025

Governing Board Members Present: Bill Jeffers, Ginny Handorf, E.L. Parsons and Daniel Peaches.

Staff Present: President, Jeanne Swarthout; Vice President, Blaine Hatch; Vice President, Mark Vest; Director, Eric Bishop; Recording Secretary to the Board, Russell Dickerson.

Reports:

1. **Agenda Item 7.A: Request to Approve the 2011-2012 Preliminary Budget (Action) – Vice President Hatch**
   Mr. Hatch reviewed the 2011-2012 budget development calendar and noted that items one through ten have been completed. Mr. Hatch noted that the next four calendar items are scheduled to be completed during the April 19, 2011 District Governing Board meeting. Mr. Hatch explained that following Board approval of the preliminary budget, notices for budget and truth in taxation public hearings, as well as press releases, will be disseminated as required by state statute. Mr. Hatch added that the public hearings, property tax approval and final budget adoption are scheduled to occur during the May 17, 2011 District Governing Board meeting. Mr. Hatch explained that the preliminary budget being presented was developed with extensive involvement at the departmental level and relates closely to the college strategic plan. Referring to budget development guidelines, Mr. Hatch explained that budget managers were instructed to submit only budget requests for operating expenditures necessary to maintain critical service levels. Mr. Hatch explained that at the time the budget was being developed, there were still some unknowns as a result of continued reductions to state operating and equalization aid. Mr. Hatch added that budget managers were reminded that the state had completely eliminated capital funding and that any proposed capital projects must be covered by the operation budget.

   Referring to the top half of the proposed 2011-12 official budget summary sheet (schedule A), Mr. Hatch reported that:

   - General fund expenditures are 14% less, or an approximately $3.6 million below 2010-11 budget levels.
   - The unexpended plant fund, which relies upon operational funds, shows an increase of $1.9 million. Mr. Hatch explained that capital budget meetings were held following the March Board meeting and noted that the proposed capital budget amount differs from what was presented in the preliminary budget analysis.
   - The retirement of indebtedness fund has no items listed as the college has no debt or secondary property tax.
   - The combined total of general and capital funds in the proposed budget show a reduction of 6.2% from 2010-11 budget levels.
   - Expenditures per full time student equivalency (FTSE) for 2011-12 are about $10,000, a 6.2% reduction from 2010-11 levels that represents a difference of $660 per full time student.
   - The 2011-12 expenditure limitation is $16.25 million, a reduction of approximately $600,000 that is directly related to decreased enrollment. Mr. Hatch explained how the expenditure limit is calculated and explained that it is driven by student enrollment. Mr. Hatch added that the expenditure limitation is not expected to be an issue with regard to the 2011-12 budget.
   - Primary property tax received in 2010-11 in excess of the maximum allowable amount as calculated according to state statute totaled zero.
   - The maximum allowable primary property tax levy for fiscal year 2011-12 is $12.7 million. Referring to the truth in taxation (TNT) analysis and 2011 levy limit worksheets, Mr. Hatch explained that state statute allows the college to increase primary property taxes by only 2% over the current year tax levy. Mr. Hatch noted that new construction valuation, which is included in the primary property tax levy amount calculation, totaled about $40 million in 2011 and is responsible for a tax levy amount increase of approximately $486,000. Responding to a question from Mr. Parsons, Mr. Hatch explained that according to statute, new construction growth is included prior to the calculation of the 2% allowable levy amount

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increase and is not included in TNT language. To provide historical tax increase perspective, Mr. Hatch explained that since 2006, when Proposition 101 was passed and reset the property tax base year from 1980 to 2005, the college has experienced a decline in the property tax rate due to the increase in valuation. Mr. Hatch reported that prior to 2005, the primary property tax rate did not go very much above $1.25 and the college was well below the maximum allowable levy amount. Mr. Hatch noted that for a period of 15 years, the college had a secondary property tax in place for general obligation bonds that were paid off in the 2008-09 fiscal year. Mr. Hatch explained that the current year primary property tax rate of $1.2387 is still below what has been seen historically. Mr. Parsons stated that the property tax rate is lower because of a decrease in valuation. Responding to a question from Mr. Parsons, Mr. Hatch confirmed that revenues based upon the tax rates would continue to be graphed upwards. Mr. Parsons stated that the rates have nothing to do with the total amount of revenue the college receives. Mr. Hatch explained that the lower property tax rates represent a decreased impact on taxpayers over the last several years. Mr. Hatch pointed out that the property tax rate decreases as valuation increases. Mr. Parsons stated that while the property tax rate may have decreased, the actual amount on property tax bills received by property owners has in fact, increased. Mr. Hatch stated that the actual property tax will vary based upon the taxpayer and added that valuation calculations assume that all property owners see the same change in property valuation. Mr. Hatch explained that when valuations increase and the property tax rate decreases, taxpayers may see an increase in the actual amount of property taxes assessed.

Referring to schedule B of the 2011-12 official budget document, Mr. Hatch reported that:

- Property taxes continue to be the single largest component of general fund revenues.
- State maintenance aid has decreased from approximately $3.6 million to $1.7 million, a 52% reduction.
- State equalization aid was decreased slightly. Related to state equalization funding, Mr. Hatch reported that the Getting AHEAD initiative is currently examining how universities and community colleges are funded and added that equalization aid is part of funding discussions. Mr. Hatch reported that several equalization aid options have been discussed and include keeping the current funding formula as well as variations on the current formula that include county population, enrollment and service area population density factors. Mr. Hatch reported that equalization funding, which tracks information that is at least 2 years old, has been a concern as state revenue has declined well ahead of the equalization aid trend. Mr. Hatch noted that in 2010-11, equalization aid was decreased and will continue to trend downward through 2012-13. Mr. Hatch reported that for 2011-12, the equalization aid reduction was calculated according to formula and the $6.45 million in equalization aid to NPC represents an overall decrease of 2.5%. Mr. Hatch added that equalization funding for 2012-13, if based upon the current formula, will total $5.2 million, a reduction of $1.25 million from 2011-12 levels. Mr. Hatch reported that NPC would not qualify for equalization aid if the formula is based upon a FTSE factor. Mr. Hatch reported that another approach was recently discussed that would move away from an equalization aid model and instead base aid upon a factor such as weighted student credit hours or local property tax contributions to community college districts. Mr. Hatch stated that there is currently an element of risk associated with continued equalization funding.
- The grants and contracts budget line shows an increase of $600,000 as a result of separating out-of-county tuition from the tuition budget line. Mr. Parsons asked if the college received an additional $400,000 from the one cent sales tax. Mr. Hatch stated that the college does receive workforce development funds that are tracked in the restricted fund. Dr. Swarthout clarified that the workforce development funding is not related to the recently implemented $0.01 sales tax, rather a result of the passage of Proposition 301. Mr. Hatch explained that beginning this year, workforce development funds have been transferred to the restricted fund for the purpose of constructing a workforce development facility. Mr. Hatch confirmed that the Proposition 301 workforce development funding has decreased as state revenues have declined.
- Tuition and fees revenue has declined by 9.4%, or $435,000.
- Total general fund revenues have declined by 4%, or $1.1 million.
- No unrestricted general fund balance is being applied to the operating fund.
- Transfers to the unexpended plant fund total $3.8 million, an increase of $1.5 million.
- Transfers to the auxiliary fund remain unchanged and total $750,000.

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- The amount available for expenditures in the proposed budget totals is $22.1 million, a reduction of $3.65 million from 2010-11 levels. Mr. Parsons asked if the $3.8 million general fund transfer came from the current year rollover amount. Mr. Hatch explained that the transfer comes from current year general fund revenue. Mr. Parsons asked if it was appropriate to assume that the college has $3.8 million in additional revenue after all expenditures have been accounted for. Mr. Hatch clarified that the transfers assume that the college has $4.5 million available to transfer from current revenues.

Referring to schedule C of the 2011-12 official budget document, Mr. Hatch reported that:

- State capital appropriations have been eliminated and the only funds available for capital improvement and purchases come from general fund transfers or from accumulated fund balance.
- Total unexpended plant fund revenues total $4.4 million.
- No amounts are listed in the retirement of indebtedness fund.

Referring to schedule D of the 2011-12 official budget document, Mr. Hatch reported that:

- Proposed 2011-12 expenditures balance with available general fund revenues.
- Without the nearly $2 million in contingency, the proposed 2011-12 general fund expenditures are almost equal to actual 2010-11 expenditures.
- The entire adjunct faculty and faculty overload budget has been removed from the instruction budget line and made available to the division deans for budget purposes and now shows up on the academic support budget line.
- Total proposed general fund expenditures total $22.1 million, a reduction of $3.65 million from 2010-11 budget levels.
- Proposed unexpended plant fund expenditures show a significant increase to $4.4 million for capital improvements. Mr. Hatch reported that the college has moved to a multi-year capital budget plan in line with the college strategic plan. Mr. Hatch reported that the proposed $4.4 million capital budget for fiscal year 2011-12 includes allowances for annual building maintenance, computer and fleet vehicle leases, in addition to the proposed $3.7 million in annual division/department capital budget requests. Mr. Hatch reported that about $2 million in capital requests are facility and vehicle related. Responding to a question from Mr. Parsons, Mr. Hatch confirmed that $200,000 listed for a facility master plan would be used to cover consultant costs related to the development of a plan and that the college does not have a current facility master plan in place. Responding to a question from Mr. Parsons, Mr. Bishop explained that the $750,000 listed for Jenzabar remediation work relates to updating the comprehensive administrative software that manages colleges operations related to student records, billing and financial aid. Mr. Bishop noted that the college, based upon a system assessment performed by Jenzabar, has decided that remediation of the current system is a more cost effective alternative to purchasing another software package that could easily cost millions to purchase and implement. Mr. Hatch added that the college needs to replace an aging telephone system. Mr. Hatch pointed out that capital budget amounts for fiscal years 2012-13 and 2013-14 are significantly higher than what is proposed for 2011-12 and include $4.5 million per year for the construction of two skills centers located on the Painted Desert and White Mountain Campuses. Mr. Hatch added that currently, automotive and welding facilities are located off campus. Addressing Mr. Parson's question related to a college master plan, Chairman Jeffers explained that the college has explored master planning but is not currently operating under a current master plan. Mr. Hatch added that plans have previously been brought before the Board for but facility development was deferred due to the economic downturn. Mr. Parsons asked if the proposed $4.4 million capital expenditure budget amount was realistic and if unexpended amounts would be rolled over into the following budget year. Mr. Hatch stated that the amount is realistic given the college will move forward aggressively to accomplish stated capital budget projects. Responding to a question from Mr. Parsons, Mr. Hatch explained that it is not the intent to pursue capital facility projects before a facility master plan is in place. Mr. Hatch added that the college needs to move forward with the Aspen Center Canopy project as well as deferred facility maintenance which is not dependent upon a facility master plan.
- No expenditures are listed for the retirement of indebtedness fund.

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Referring to schedule E of the 2011-12 official budget document, Mr. Hatch reported that:

- Proposed 2011-12 auxiliary fund revenues total $150,000 and remain unchanged from 2010-11 budget levels.
- The proposed other sales and services budget line increases by $155,000 to match 2010-11 actual expenditures.
- Transfers from the general fund decrease due to the adjustment in the other sales and services budget line amount.

Referring to schedule F of the 2011-12 official budget document, Mr. Hatch reported that:

- The proposed restricted fund grant revenue line has increased slightly and is related to increased financial aid awards.
- State grants have been reduced significantly to align with estimated actual amounts which are much lower due to the greatly reduced flow through of state grants.
- General fund transfers to the restricted fund increase by $200,000 to more closely match expectations for the upcoming fiscal year.
- Proposed restricted fund revenues available for expenditure total $5.8 million, an increase of 4.5% over 2010-11 budget levels.

Referring to schedule G of the 2011-12 official budget document, Mr. Hatch reported that:

- Proposed auxiliary and restricted fund expenditures remain largely unchanged from 2010-11 budget levels with the exception of minor adjustments to bring proposed budget amounts in alignment with 2010-11 estimated actual expenditures.

Mr. Hatch noted that the levy limit worksheet is considered to be schedule H in the official budget document. Mr. Hatch briefly reviewed the Higher Learning Commission (HLC) financial ratios which provide an overall picture of institutional financial health. Mr. Hatch noted that during the recent HLC Annual Conference, an attendee commented that especially during these financial times, the ratios are also an indicator as to how a given institution will fare financially in the future. Mr. Hatch reported that the overall financial health of NPC has increased since 2007 due largely to the repayment of general obligation bonds as well as the increase in cash reserves.

Responding to a question from Mr. Parsons, Mr. Hatch confirmed that the 2011-12 wage and salary recommendation was built into the proposed budget. Mr. Parsons stated that the purpose of a budget is to budget for one year, not next year or the following year. Mr. Parsons noted that budget materials presented to the Board contain multiple variances that make them unrealistic indicators of where the college will be in two or three years. Mr. Parsons stated that reduced tuition revenue and state aid elimination possibilities should not be presented as facts as they only serve to color budget presentations so that carry over funds can be built in for future years. Mr. Parsons stated that he is against raising property taxes so that carry over funds can be built into the budget. Mr. Parsons stated that it is inappropriate for the college to raise property taxes while carrying large amounts of money forward which will total $11 million in the next few years. Mr. Parsons stated that he is doubtful that the constituents of his district are in favor of raising property taxes simply because the college has the ability to do so. Mr. Parsons stated that he supports the university and believes in doing what is right for the employees. Mr. Parsons stated that he does not believe the college should raise property taxes by 7% because it is absolutely unnecessary. Mr. Parsons stated that increasing property taxes by the maximum allowable amount is simply wrong in the current economic environment. Mr. Parsons stated that the college could implement recommended wage and salary adjustments with hardly any effect on carry forward amounts. Mr. Parsons expressed concern over the number and scope of capital budget items planned for next year and questioned whether the Aspen Center Canopy project would adequately address the facility issues. Mr. Parsons questioned whether the issuance of a request for proposals for the canopy project was included in the current year budget. Mr. Parsons concluded by stating that increasing taxes by $770,000 is not necessary for the university to move forward and prosper. Chairman Jeffers clarified that the issuance of a request for proposals for the Aspen Center canopy is included in the proposed 2011-12 budget year that will begin July 1, 2011. Addressing Mr. Parsons' concern over carry forward amounts, Chairman Jeffers asked Mr. Parsons if it would be preferable to go out to bond for the $4.8 million skill centers proposed for construction on the Holbrook and Show Low campuses. In response, Mr. Parsons stated that the college already has $4.8 million and the college could do everything included in the proposed budget without increasing taxes, while still retaining

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an excess of $2 million in carry forward funds. Mr. Parsons stated that the college is not in a dire financial condition and a tax increase would make it even more difficult for every Navajo County taxpayer. Mr. Parsons stated that a tax increase would ultimately be done solely because the college has the ability to do so and added that such an increase does nothing to address the current budget situation but focuses on what might happen in the next few years. Chairman Jeffers stated that the reason the maximum tax increase is being recommended is because it is financially prudent and it would not be prudent for the college to reduce balances to zero. Chairman Jeffers stated that he appreciates a budget that provides for the future of the institution, adding the ability of the college to operate for 9 to 10 months, without any state funding, reflects the prudent financial planning under which the college operates. Mr. Parsons asked for clarification as to where the budget plans for the future or shows accumulated carry forward amounts. Mr. Jeffers pointed out that carry forward funds are placed in the capital fund. Mr. Parsons asked if carry over funds are being placed into the capital fund when the college has no intention of moving forward with the $4.4 million in proposed capital projects. Chairman Jeffers directed Mr. Parsons to the proposed construction of skills centers that the college has budgeted $4.8 million of capital funding to complete. Mr. Parsons reiterated his position that the college could accomplish capital projects without raising taxes while still retaining $2 million in carry forward funds. Mr. Parsons stated that he has analyzed the budget, studied the graphs, rechecked the figures and is unable to figure out where $3 million to $4 million in annual carry forward amounts are going. Mr. Parsons reiterated that it is wrong for Navajo County taxpayers to shoulder the burden when the budget automatically provides for millions in carry forward. Chairman Jeffers asked if Mr. Parsons believes that carried over funds have disappeared from the college as evidenced by Mr. Parsons' inability to locate the funds in the budget documents. Mr. Parsons stated that he does not believe that carry forward funds have disappeared from the college. Chairman Jeffers stated that carry forward funds are placed into the capital fund so that the college can make necessary improvements without going out to bond.

Ms. Handorf, in response to comments made in the preliminary budget discussion, read the following passages aloud from *Trusteeship in Community Colleges: A Guide to Effective Governance* by Cindra J. Smith:

> "Wise boards approve a budget based upon its support for progress toward the educational goals. Prudent boards insist that the budget is balanced and that there are accurate and reasonable estimates of revenues and expenditures, clear explanations of long-range implications and sufficient reserves. Wise boards approve a budget based upon its support of progress toward the educational goals of the institution and how it meets the policy standards."
>
> "Truly effective boards focus on major policy issues and institutional performance and delegate to the chief executive officers and their staff the responsibility for managing the institution."

Ms. Handorf stated that she believes that the Board has shifted too closely to the management of the institution and read the following passages aloud from *Boards That Make a Difference* by John Carver:

> "By participating directly in the work of the organization, the board tends to become lost in the trees and lose sight of the forest."
>
> "Moving mountains an inch often appears less active than moving molehills a mile. Boards who would be strategic leaders must move at a more deliberate pace than their staff but with issues that are far more momentous. Strategic leadership demands powerful engagement with trusteeship, obsessive concern over results, enthusiastic empowerment of people that we work with, bigness in embracing the far sided future view and a commitment to take a stand for dreams of tomorrow's human condition."

Ms. Handorf stated that she greatly appreciates what the staff and Board have done. Ms. Handorf stated that it is not the job of the Board to manage institutional details. Ms. Handorf stated that the college is not in dire financial straits due to the type of planning that has been done and added that the Board should work together for the sustainability, continuity and fiscal health of the college as this is what Board members were elected or appointed to do. Referring to earlier discussion of financial possibilities being presented to the Board as fact, Chairman Jeffers stated that he never interpreted possible budget scenarios as fact, but as the best guesses by staff of future conditions. In response to remarks made by Ms. Handorf, Mr. Parsons stated that he represents District 4. Ms. Handorf quickly countered

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by stating that Mr. Parsons was elected by District 4 to represent the college. Mr. Parsons reiterated his position that District 4 constituents do not want higher taxes and the viability of the college does not depend upon raising taxes. Mr. Parsons stated that his duty is to his district as well as every taxpayer in Navajo County, adding that he is proud of his conservatism. Mr. Parsons once again questioned why the college would raise taxes if it is not struggling financially. Mr. Parsons added that he does not believe Navajo County taxpayers consider a $770,000 increase in taxes a molehill. Mr. Parsons stated that a tax increase is not necessary and the college will increase taxes simply because it can. Chairman Jeffers stated that the taxpayers of Arizona and Navajo County said that in good times and bad, the college has the ability to raise property taxes by 2%. Ms. Handorf pointed out that small, consistent increases, as opposed to skyrocketing tuition rates, for example, is in fact, financially conservative. Chairman Jeffers halted discussion due to a lack of time remaining in study session.

Agenda Item 7.B: Request to Approve 2011-2012 Wage and Salary Schedules (Action) – Vice President Hatch
Dr. Swarthout informed Board members that staff has revised the wage and salary recommendation that was presented at the previous Board meeting. Mr. Hatch reported that since the last Board meeting, the legislature made specific changes to the Arizona State Retirement System (ASRS) contribution rates. Mr. Hatch reported that the employee contribution is now 53% and the employer match is 47%. Mr. Hatch explained that under the new contribution scheme, employees will see a 1.5% ASRS increase, as opposed to the 0.9% reported at the March Board meeting, and the college will only see a 0.25% increase, for a savings of approximately $60,000. Mr. Hatch reported that the college is not required to remit the savings generated by the change to the State's general fund. Mr. Hatch reported that he anticipates future actuarial requirements for ASRS contribution rate increases with the employee being responsible for a greater contribution amount. Mr. Hatch explained that should the Board approve a return to the 2009-10 salary schedule, plus a 2% increase for each salary schedule, the college, from a two-year perspective, will still be 0.33% to 0.50% lower than similar Arizona community colleges. Responding to a question from Chairman Jeffers, Mr. Hatch confirmed that the wage and salary recommendation to return to the 2009-10 schedule returns the 2% that faculty and staff lost in 2010-11, adds an additional 2% to help defray increased employee costs and is possible in part because of the savings realized by the college due to a decrease in the new ASRS employer contribution rate.

2. **Agenda Item 7.C: Request to Approve Revised Employment Contracts (Action) – Vice President Hatch**
Discussion of Agenda Item 7.C deferred until the regular District Governing Board meeting due to lack of time remaining in study session.

3. **Agenda Item 7.D: Request to Issue RFP for Aspen Center Canopy Project (Action) – Vice President Hatch**
Discussion of Agenda Item 7.D deferred until the regular District Governing Board meeting due to lack of time remaining in study session.

4. **Agenda Item 7.E.: Request to Approve Purchase of Cisco Networking Equipment (Action) – Director Bishop**
Discussion of Agenda Item 7.E deferred until the regular District Governing Board meeting due to lack of time remaining in study session.

5. **Agenda Item 7.F.: Request to Approve Data/Network Service Contract (Action) – Director Bishop**
Discussion of Agenda Item 7.F deferred until the regular District Governing Board meeting due to lack of time remaining in study session.

6. **Agenda Item 8.A.: Request to Approve Program Modification and Deletion (Action) – Vice President Vest**
Discussion of Agenda Item 8.A deferred until the regular District Governing Board meeting due to lack of time remaining in study session.

Study session ended at 10:55 a.m.

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Respectfully submitted,

Russell Dickerson

Russell Dickerson
Recording Secretary to the Board

Bill Jeffers

Bill Jeffers
Chairman

Ginny Handorf

Ginny Handorf
Secretary to the Board

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