

# How to Establish a Framework for Fiscal Stability and Compliance

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## **Fiscal Stability and Compliance – Best Practices**

- Navigate the Ever Changing Regulations and Formulas
- Develop a Framework by Establishing Indicators and the Related Targets
- Implement Best Practices Using Tools and Guidelines From State Agencies
- Achieve Fiscal Health By Maintaining Fiscal Standards



## State Agencies Provide Guidelines for Fiscal Stability

- **ACCJC** – Accrediting Commission for Community and Junior Colleges  
Western Association of Schools and Colleges
- **FCMAT** – Fiscal Crisis and Management Assistance Team
- **CCCCO** – California Community Colleges Chancellor’s Office

## State Agencies Provide Guidelines for Fiscal Stability

- **ACCJC – Accrediting Commission for Community and Junior Colleges**
- **Federal Regulations Allow Monitoring of Districts**
  - 602.16 (a) (1) – Fiscal and Administrative Capacity
  - 602.19 (b) (1) – Analysis of Key Indicators of Fiscal Information
- **Financial Task Force**
  - Identified Metrics for Indicators of Fiscal Challenge
  - Developed a Rubric for Review of Annual Financial Report
  - Developed a Review Process
  - Developed a Refined Financial Data Set
  - Established a 3 Year Data Set to Facilitate Longitudinal Analysis

## ACCJC: Composite Financial Index Rating Criteria

- **Reserve Ratio:  $\text{Beg Bal} + (\text{Revenue} - \text{Expenditures}) / \text{Expenditures}$** 
  - Should Be Greater Than 5%
- **Operating Deficit: 3 Year Average of Net Revenue – No Shortfall**
  - Should be Greater Than \$0
- **Salary and Benefits: As % of Total Budget**
  - Should Be Less Than 86%
- **Enrollment Change: Annual FTES**
  - Should be Less Than Regional Average
- **Unrestricted Cash Balance: Annual Change**
  - Should Not Exceed a Decline of 5%

## ACCJC: Composite Financial Index Rating Criteria

- **Annual Audit: Material Weakness and/or Multiple Significant Deficiencies**
  - Should Be Minimized
- **Financial Aide: Student Loan Default Rate**
  - Should Be Less Than 28%
- **Bargaining Agreements: Settlement in Excess of COLA – Ongoing**
  - Ongoing Negotiated Increases In Excess of COLA Should Be Avoided
- **Executive Level Leadership: Changes Every 6 Years**
  - Changes in Executives Should Be Less Than 2 Every 6 Years

# FCMAT – Fiscal Crisis & Management Assistance Team

- **Definitions of a Financially Troubled District**
  - History of Deficit Spending
  - Unusual Fluctuations in FTES
  - Receiving Stability Revenue
  - Unrestricted General Fund Balance – Trending Negative
  - Prudent General Fund Unrestricted Balance of 5% Cannot Be Maintained
  - Multi Year Budget Projections Do Not Reflect Reasonable Assumptions, i.e.:
    - Unattainable Growth Target
    - COLA Above Reasonable Trends
    - Negotiated Increases Not Supported by Ongoing Revenue
    - FON Target Not Met – FT Faculty Staffing Not Included
  - Insufficient Cash to Meet Its Obligations
  - Audit Findings Reflect Material Internal Control Issues

## FCMAT – Fiscal Crisis & Management Assistance Team

- **Indicators of Potential Risk or Insolvency**
  - Inadequate Budget Development
  - Limited Budget Monitoring
  - Cash Monitoring and Accounting Deficiencies
  - Lack of Data Accuracy, Collection and Reporting
  - Human Resources Weaknesses
  - Inattention To and/or High Levels of Debt
  - Ineffective Communication
  - Breakdown in Leadership



# California Community Colleges State Chancellor's Office

- **Statutory Requirements**
  - **Education Code Section 84040 (c )**

“The Board of Governors shall adopt criteria and standards for periodic assessment of the fiscal condition of community college district, and such regulations regarding the review and improvement of district fiscal conditions as necessary to encourage sound fiscal management practices”
  - **5 CCR § 58310**
    - Report on District's Financial Condition
  - **5 CCR § 58311**
    - Principles for Sound Fiscal Management

# California Community Colleges State Chancellor's Office – Fiscal Oversight

- **Accounting Advisory 05-05**
  - **Monitoring and Assessment of Fiscal Condition/Fiscal Assessment Checklist**

“...to determine whether a district requires preventative management assistance or fiscal crisis intervention”
  - **Primary Criteria**
    - Percent of Unrestricted General Fund to Total Expenditures
  - **Secondary Criteria**
    - Deficit Spending
    - Full-Time Equivalent Students
    - Salaries and Benefits
    - Other Factors

## IEPI: Institutional Effectiveness Partnership Initiative

- **2014-2015 Budget Legislation Established New Initiative**
  - Collaborative Effort to Help Advance The Institutional Effectiveness of California Community Colleges
  - Enhances the System's Ability to Effectively Serve Students
  - Administered by the California Community Colleges Chancellor's Office in Partnership with College of the Canyons and the Statewide Academic Senate
  - Major Components Include
    - Development of Statewide Indicators Per SB852/SB860 – Updated Annually
    - Technical Assistance Teams – Partnership Resources Teams (PRTs)
      - Requested by Districts to Share Best Practices on Selected Initiatives
    - Implementation Grants - Available to Assist Colleges with Institutional Effectiveness Initiatives

## IEPI: Institutional Effectiveness Partnership Initiative

- **Built on “Early Indicators of Success” Across All Areas of College Operations**
  - Fiscal Health
  - Student Outcomes
  - Programmatic Compliance
  - Accreditation
- **Fiscal Indicators – Year 1, 2 and 3**
  - Salary and Benefits as a Percentage of Total Budget
  - Full-Time Equivalent Students
  - Annual Operating Excess/(Deficiency)
  - Unrestricted General Fund Balance
  - Cash Balance
  - Audit Findings
  - **Year 3 - Recommended**
  - **OPEB** - Report the percentage of the OPEB liability the district has set aside whether in an irrevocable trust, revocable trust and/or in a Board designated fund to specifically address this liability.

<b>Fiscal Category</b>	<b>Recommendation</b>	<b>FCMAT</b>	<b>Fiscal Assessment Checklist</b>	<b>ACCJC</b>	<b>Rating Agencies</b>
Annual Audit	Independent Audit w/o Material Findings	X	X	X	X
Regulations	Comply with 50% Law, etc.	X	X	X	X
Bargaining Agreements	Settle at or Under COLA – Identify Sufficient Funding	X	X	X	X
% Salary/Benefit	At State Average	X	X	X	X
Enrollment/FTE	Stable/Increase	X	X	X	X
Develop Budget	Position Control, Zero Base	X	X	X	X
Fund Balance	Adequate	X	X	X	X
Deficit Spending	Eliminate	X	X	X	X
Contingency	Sufficient Reserve – Uncertainty	X	X	X	X
LT Projections	Develop with Assumptions	X	X	X	X
Monitor Budget	Variance Analysis	X	X	X	X
Cash Flow	Meets Needs/No Borrowing	X	X	X	X
Debt/GASB	Report/Fund Based on Plan	X	X	X	X
Leadership	CEO/CBO – 2+ Years	X	X	X	X

# Annual Audit: Financial, Federal and State Accountability

- **Financial Statements**
  - Unmodified Opinion
    - Adequate Internal Control over Financial Reporting
    - Financial Statements Contain No Material Misstatements
- **Federal**
  - \$750,000 Threshold for Major Federal Programs (2015-16)
  - Financial Aid – Largest Federal Program
    - Return to Title IV Funds – When Students Don't Qualify
    - Reconciliations, Appropriate Accounting Records
    - Segregation of Authority – Financial Aid vs. Fiscal Services
- **State**
  - Meet with Grant/Categorical Program Managers Regularly to Ensure Compliance

## State Laws and Regulations – Compliance

- General Apportionment Funding: Calculation, Timing/Volatility
- Proposition 30-EPA: Report on CCFS 311
- GANN Limit – Revenue Limit: Report on CCFS 311
- FON – Full-Time Faculty Obligation
- 50% Law
- STRS/PERS
- ISA – Instructional Service Agreements (Public Safety, etc.)
- Lottery Funding
- Categorical Programs: EOPS, DSPS, SSSP, Student Equity, Strong Workforce
- Scheduled Maintenance/Instructional Equipment
- Proposition 39 – Clean Energy

## State Laws and Regulations – General Apportionment

○	<b>2015-16 Base Revenue</b>		
■	Basic Allocation – Single College		\$ 4,536,493
■	Basic Allocation – Center		\$ 1,134,123
■	Base Credit	14,800 FTES x \$4,676	\$ 69,203,320
■	Base Non-Credit	200 FTES x \$2,812	\$ 562,350
■	<u>CDCP Non-Credit</u>	<u>100 FTES x \$4,676</u>	<u>\$ 467,590</u>
○	<b>Total Base Revenue</b>		<b>\$75,903,876</b>
○	<b>2015-16 Projected Growth: 3.0%</b> <i>(State Allocation = 3%)</i>		
■	Growth Credit	444 FTES x \$4,724	\$ 2,097,278
■	Growth Non-Credit	6 FTES x \$2,840	\$ 17,043
■	<u>Growth CDCP Non-Credit</u>	<u>3 FTES x \$4,724</u>	<u>\$ 14,171</u>
○	<b>Total Growth</b>	<b>453 FTES</b>	<b>\$ 2,128,492</b>
○	<b>Add: COLA @ 1.02% x Base</b>		\$ 774,220
○	<b>Add FT Faculty Hiring Increase</b>		\$ 800,000
○	<b>Add Base Increase</b>		<u>\$ 3,800,000</u>
○	<b>TOTAL 2015-16 COMPUTATIONAL REVENUE</b>		<b>\$83,406,588</b>
○	<b>Less: Revenue Shortfall (One-Time Reduction)</b>		<u>(\$ TBD)</u>
○	<b>TOTAL 2015-16 ADJUSTED REVENUE</b>		<b>\$83,406,588</b>



## **State Laws and Regulations - A Title 5 Requirement Full-Time Faculty Obligation (FON)**

- **FON Goal – To Bring FT Faculty Staffing Closer to 75/25 Ratio**
- **FON Requires Districts to Increase Their Full-Time Faculty Over the Prior Year**
  - Chancellor's Office Assigns Estimated FT Faculty Target Annually
  - FON Target is Based on Prior Year FON Target Increased By Growth
  - New FON Target Is To Be Achieved by Fall of the Following Year
- **The FON Compliance Report is Due November 1st**
  - FTEF – Full Time Equivalent Faculty
- **New On-Going FT Faculty Funding in 2015-2016 Resulted In FON Target Increases To Equalize Disproportionate Goals**

- **Regulations: Faculty Obligation Number (FON) A Title 5 Requirement**

- **Fall 2015 Projected FON**

• FON	182.80
• Estimated FTEF	<u>193.75</u>
• FTEF Over FON	10.95

- **Fall 2016 Projected FON**

• Fall 2015 FON Base	182.80
• Base Adjustment “True Up”	6.00
• Required Adjustment	
• Based on 2014-15 P2 Change in Credit FTES of 4.8%	
• 2015-16 Projected Credit FTES Increase	4.00
• Add On for FT Faculty Funding	<u>11.26</u>
• Projected FON	204.06

- **Fall 2016 FTEF to Meet Goal** **10.31**

## State Regulations – 50% Law Compliance

- **Established in 1959 for K-12 Class Size Reduction**
  - We Don't Deliver Instruction the Same Way That We Did in the 1950's
- **Requires Districts to Spend at Least 50% of the Current Cost of Education on Instructional Salaries and Benefits**
  - The 50% Law Does Not Take Into Account Recent Activities That Support Education: Technology
- **Conflicts with Many Other Regulations**
  - **AB1725** – Enacted to Expand the Definition of the Role of Faculty Beyond the Classroom – Falls On the “Bad” Side
    - COCFA President, Academic Senate President, Curriculum and Tenure Coordinators, Faculty Directors: EOPS, DSPS, CWEE, etc.
  - **FON and 75/25** – Include Librarians and Counselors in the Calculation

# State Regulations – 50% Law Compliance

<b>The Fifty Percent Law Requirement</b>		
<b>Right, Wrong and Neutral Expense Categories</b>		
<b><u>Right Side</u></b>	<b><u>Wrong Side</u></b>	<b><u>Neutral or Exceptions</u></b>
<b>Faculty Instructional Salaries and Fringe Benefits:</b>	<b>Faculty Non-Instructional Salaries and Fringe Benefits, and Instructional Department Salaries, Fringe, and Operating Expenses:</b>	<b>All Salaries, Fringe Benefits, and Operating Expenses for the following:</b>
Full-Time Faculty (In the Classroom)	<b>Faculty Counselors</b>	Asset Management
Adjunct Faculty (In the Classroom)	<b>Dept Chair Reassign Time</b>	Athletics (Incl. Athletic Coach Stipends calculated at one month's salary per sport)
Full-Time Classified Instr Aides	<b>Faculty Coordinators</b>	Building/Equipment Rents and Leases
Instructional Adult Hourly	- Institute Teaching & Learning	Civic Center
Instructional College Assistants	- Associate Program Coordinator	Community and Continuing Education
(Includes all Credit and Non-credit instruction, including Faculty and Staff assigned to the TLC, ZONE and Instructional Faculty Sabbaticals)	- Tenure Coordinator	Economic Development
	- Basic Skills Coordinator	Foundation
	- SLO Coordinator	International Student's Program
	- Field Studies Coordinator	New Equipment and Software
	- Nursing Coordinator	Physical Plant
	- Forensics Coordinator	Retirement Incentive Premiums
Public Safety Instruction Costs:	- Culinary Arts Coordinator	Service Learning
Instructional Services Agreement contract costs associated with direct instruction	- COCFA President	Student Development
	- Academic Senate	University Center
	- Curriculum Committee	Unrestricted Lottery Funding
	- CTA Conference Chair	
	- Fire Tech - ISA's	
	<b>Faculty Directors</b>	
	- EOPS, Transfer Center, CWEE, NSF Director	
	<b>Faculty Librarians</b>	
	<b>Full-Time Faculty Supplemental Services</b>	
	<b>Adjunct Librarians</b>	
	<b>Adjunct Flex</b>	
	<b>Adjunct Counselors</b>	
	<b>Adjunct Non-Instructional Salaries</b>	
	<b>Full-Time Faculty Librarians Extra Hours</b>	
	<b>Sabbatical Leave</b>	
	<b>Fringe Benefits on Faculty Salaries above Instructional Departments - Deans/Directors</b>	
	<b>Instructional Departments - Classified Staff</b>	
	<b>Fringe Benefits on Instructional Salaries Above</b>	
	<b>ISA costs not attributable to inst. salaries</b>	
	<b>Supplies and Operating Expenses - Inst Depts.</b>	

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# State Regulations – 50% Law Compliance

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<b>Faculty Instructional Salaries and Fringe Benefits:</b>	<b>Faculty Non-Instructional Salaries and Fringe Benefits, and Instructional Department Salaries, Fringe, and Operating Expenses:</b>	<b>All Salaries, Fringe Benefits, and Operating Expenses for the following:</b>
	<b>Support Services Salaries &amp; Operating Budgets:</b>	Continued from Previous Slide
	- Academic Senate	
	- Admissions and Records/Stud Serv	
	- Art Gallery	
	- Associate Program	
	- Audio Visual	
	- Business Services	
	- Campus Safety	
	- Canyon Country Campus Admin/Stu Svcs/Fac	
	- Chancellor/Board of Trustees	
	- Counseling	
	- Distance Education	
	- Facilities, Maintenance, Warehouse	
	- Financial Aid	
	- General Inst Support (insurance, legal etc)	
	- Hite and Honors	
	- Human Resources	
	- Institutional Development	
	- Instructional Office/Academic Affairs	
	- Library	
	- MIS/Computer Support	
	- Non-Credit	
	- PIO/Reprographics/Graphics/Switchboard	
	- Staff Development	
	- Utilities	
	- Est. Fringe Benefits on Support Svcs. Salaries	

## Conflicting Regulations: FON vs. 50% Law Calculation

Description	FON (FTEF)	50% Law (Expense)
Librarians	Yes	No
Counselors	Yes	No
Faculty Coordinators and Directors	Yes	No
Released/Reassigned Time (Non-Instructional)	Yes	No
Instructor Sabbaticals	Yes	Yes
Unpaid Leave (Exclude Replacement Faculty)	Yes	N/A
Overload	No	Yes
Late Retirements	Yes	N/A
Instructional Deans and Admin	No	No
Instructional Supplies/Equipment	N/A	No
Online Education/Computer Technical Support	N/A	No

## STRS/PERS Pension Liability

AB1469 – Mandates STRS Employer/Employee/State Contribution Increases Through 7/1/2046

STRS/PERS Pension Rate Increases Disrict Contribution Increase Projections						
Fiscal Year	STRS	STRS Annual Contribution Increase	PERS	PERS Annual Contribution Increase	Total STRS/PERS Increase	STRS/PERS Expense Included in Budget
2013-14	8.25%	\$ -	11.44%	\$ -	\$ -	
2014-15	8.88%	\$ 176,010	11.77%	\$ 77,205	\$ 253,215	\$ 253,215
2015-16	10.73%	\$ 599,494	11.85%	\$ 25,947	\$ 625,442	\$ 625,442
2016-17	12.58%	\$ 696,695	13.89%	\$ 552,422	\$ 1,249,117	\$ 1,249,117
2017-18	14.43%	\$ 716,756	15.50%	\$ 470,584	\$ 1,187,340	TBD
2018-19	16.28%	\$ 773,680	17.10%	\$ 499,912	\$ 1,273,593	TBD
2019-20	18.13%	\$ 833,832	18.60%	\$ 504,384	\$ 1,338,216	TBD
2020-21	19.10%	\$ 545,231	19.80%	\$ 445,799	\$ 991,029	TBD
		\$ 4,341,699		\$ 2,576,254	\$ 6,917,953	

## Bargaining Agreements

- Total Compensation Formula: % Allocation x (Salaries + Benefits)
  - Allocation Funds Negotiated Increases to Compensation
- Settle the Total Cost at or Under COLA – Current and Prior 3 Years
- Conduct Pre-Settlement Analysis Including Multiyear Projections
- Identify All Related Costs Above COLA
  - Benefits
  - Steps/Columns
- Identify Ongoing Revenue Sources or Expenditure Reductions To Support Long-Term Effects on Budget
- CEO/CBO Should Verify the Affordability of the Agreement Prior to Ratification



## Bargaining Agreements

- **Total Compensation – Example for FT Faculty**

• Budgeted Salaries (Before Step Increases)	\$ 20,000,000
• Step Increase	\$ <u>300,000</u>
• Subtotal Compensation	\$ 20,300,000
• Other Compensation	
• Overload	\$ 1,000,000
• Summer/Winter	\$ <u>1,700,000</u>
• Subtotal Salaries and Other Compensation	\$ 23,000,000
• Health & Welfare – Negotiated Contribution	
• Number of FT Faculty - 200 @ \$15,000	\$ <u>3,000,000</u>
• <b>Total Compensation</b>	<b>\$ 26,000,000</b>

- **Total Compensation Allocation @ 1%** \$ 260,000

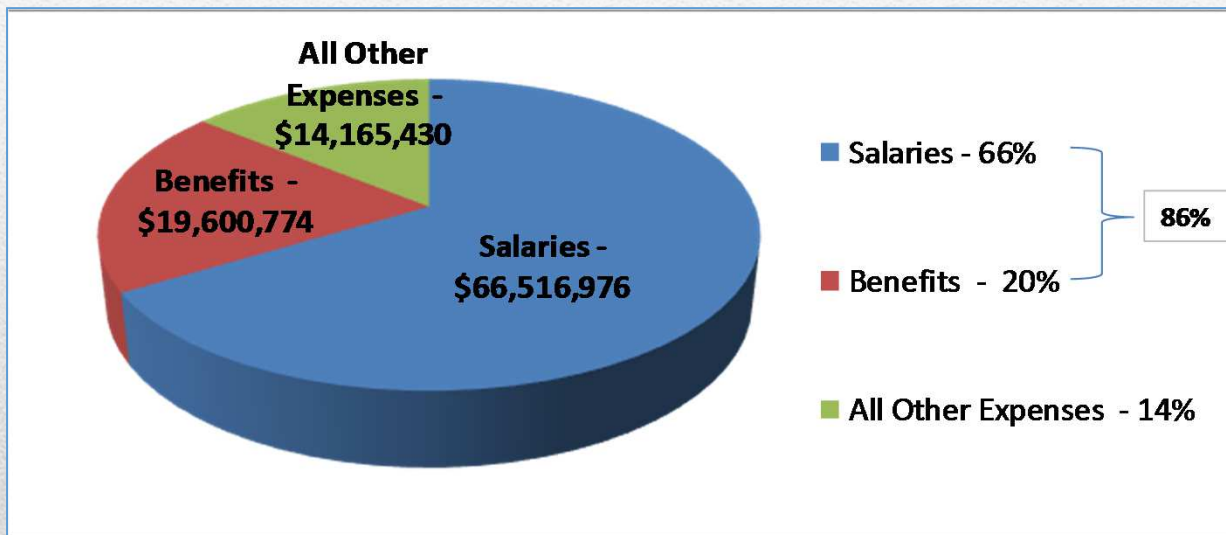
- **Allocation Options:** Salary Schedule Increase, H&W Contribution Increase, Overload, Summer or Winter Salary Schedule Increase, Department Chair Release Time, etc.

## Salaries and Benefits – % of Unrestricted Budget

- Expenditures Should Be At or Below State Average – 85%
- Position Control Provides a Mechanism to Track Full-Time Salaries
  - Unique Code by Position (Not by Employee)
  - Estimate Step Increases for Each Employee
- Hiring/Change Authorization Forms
  - To Document Funding Source
  - Update for Reclassifications/Position Changes
- Board Approve New Positions/Authorization to Reemploy/Replace
- Only On-going Dollars Should Pay for Permanent Staff
- Fixed Fringe Projections Based on Current Salary Projections Plus Steps
  - OASDI/Medi – Social Security and Medicare
  - Workers' Compensation
  - State Disability/Long-Term Disability
  - STRS and PERS
- Health & Welfare Costs
  - Evaluate Plan Changes and Payroll Deductions to Offset Increasing Health and Welfare Costs

## Salaries and Benefits – % of Unrestricted Budget

- 2016-2017 Adopted Budget Salaries and Benefits Account for 86% of SCCCD's Unrestricted General Fund Adopted Budget



### History of Adopted Budget Percentages:

2016-17	86%
2015-16	84%
2014-15	84%
2013-14	85%
2012-13	81%
2011-12	81%
2010-11	81%
2009-10	80%

## • **Enrollment and FTES**

- Establish FTES Target Based on Chancellor's Office Estimate Each Budget Year
- Adjust Budget Target Based on Historical and Future Projections
- Analyze Actual Enrollment/FTES Data for Accuracy
- Reconcile Actual Enrollment and FTES Data Monthly
- Implement New Programs to Increase FTES
- Add/Decrease Classes to Maximize Class Size Efficiency
- Evaluate Student Enrollment Trends and Educational Plans to Plan For Future Class Schedules
- Hire Faculty in Advance To Meet Student Demand
- Student Attendance Accounting – Open Enrollment, TBD/TBA, Intersession, etc.

## Enrollment and FTES

Year and Funded %	Total FTES Excl. ISAs	ISA FTES	Total FTES	% Chg.	Un-Funded FTES	Funded FTES	Budget Section CY	FY FTES Apport. Sections	Adjunct Incr. for Section Incr. (Fund 11)
2008-09 – 9.0%	13,324	3,279	16,603		1,136	15,467			\$10,022,091
2009-10 – (3.65%)	13,338	3,249	16,587	-.1%	1,685	14,902			\$8,556,939
2010-11 – 2.31%	12,749	2,545	15,294	-8%	47	15,247			\$8,037,377
2011-12 – (8.2%)	13,226	771	13,997	8.5%	-	13,997	3,590	3,819	\$9,584,505
2012-13 - .94% Adopted Budget (FTES-Prop 30)	12,828	1,300	14,128	1%	-	14,128	3,598	3,578	\$9,755,774 (Budget without prop 30)
2012-13 – (.08%) Recalc 11-1-13	13,025	961	13,986	-.1%	-	13,986	3,701	3,740	\$10,451,207
2013-14 – 1.63% Adopted Budget	13,943	1,000	14,203	6.8%	-	14,203	4,233	4,380	\$11,287,012
2013-14 – 4.5% Est. @ YE Close	14,359	996	14,615	9.8%	-	14,615	4,165	4,219	\$12,013,659
2013-14 – 3.72% Recalc 2-18-15	14,342	1,013	14,615	8.4%	109	14,506	4,165	4,219	\$12,013,659
2014-15 – 3.75% Adopted Budget	13,913	1,250	15,163	1.2%	-	15,163	4,158 Rev: 4,272	4,170 Rev: 4,284	\$12,184,227 New Sect #'s 3-5-15
2014-15 – 4.63% P1 2-19-15	14,151	1,100	15,251	.68%	73	15,178	4,272	4,284 (with 200 unfunded)	\$12,184,227 (+ Proj \$892K short)
2015-16 – 2.0% 4-28-15 scenario	14,232 Or 13,982	1,250 Or 1,500	15,482	2.0%	0	15,482	4,359	4,359	TBD
2015-16 – 2%+1.18% 4-28-15 scenario	14,411	1,250	15,661	3.18%	0	15,661	4,359	4,359	TBD

## Enrollment and FTES

Year	State Funding %	Adopted Budget	Budget %	Total FTES	Total FTES % Change	Unfunded FTES	Funded FTES	Funded FTES % Change	Funded FTES Actuals to Budget %	Funded FTES Actuals to Budget
2008-09	2%	15,647	8.6%	16,603		1,136	15,467			(180)
2009-10	0%	14,953	-3.7%	16,587	-1%	1,685	14,902	-3.7%	0%	(51)
2010-11	2.21%	15,262	2.4%	15,294	-7.8%	47	15,247	2.3%	-1%	(15)
2011-12	0%	13,976	-8.2%	13,997	-8.5%	-	13,997	-8.2%	0%	21
2012-13	1%	12,950	-7.3%	13,986	-.1%	-	13,986	-.1%	7.2%	1,036
2013-14	1.63%	14,615	4.5%	14,615	4.5%	107	14,508	3.7%	-.8%	(107)
2014-15	2.75%	15,163	3.8%	15,154	3.7%	-	15,154	4.5%	.7%	(9)
2015-16 Est Recalc	3%	15,764	3.5%	15,948	5.2%	-	15,948	5.2%	1.7%	184
2016-17 Adopted	2%	16,426	3.0%	16,426	3.0%	-	16,426	3.0%	0%	0

## • **Budget Development – Budget Parameters**

### • **Criteria for a Fiscally Responsible Budget**

- **Program Review/Planning** – Link Budget to Program Review Through Strategic Goals
- **Balanced Budget** – Revenues Should Equal or Exceed Expenses
- **Designated Contingency (Reserve)** – Establish a Reserve for Anticipated Shortfalls or to Take Advantage of New Opportunities
- **Fund Balance** – Establish a Minimum 6% Fund Balance or Larger if Possible to Protect Against Mid-Year Cuts or Other Unscheduled Revenue Shortfalls
- **Enrollment Management** – Provide Funding to Support the District’s Mission of Teaching and Learning
  - **FTES Target** – Meet Demand for Student Access While Minimizing Unfunded FTES
  - **Instruction/Curriculum** – Support Student Access by funding curriculum development, maintenance, redesign, resizing and expansion to ensure the currency and relevancy of programs.
  - **Workforce Training** – Provide funding for Economic Development outreach and service to potential business partners to meet the needs of local businesses by providing training.
  - **Supporting Student Success** – Be responsive to State mandates and recommendations that support Student Success Task Force goals.

# Budget Development – Budget Parameters

- **Criteria for a Fiscally Responsible Budget**
  - **Revenues** – Base on Reasonable and Conservative Estimates and Formulas for State Apportionment, Growth, COLA, Categorical Revenue, etc.
  - **Revenue Enhancements** – Pursue revenue augmentations through Grants, Foundation, Partnerships, etc.
  - **Expenses**
    - Integrated with Planning Documents Through Program Review
    - Based on Prior Year Adopted Budget, Expense Augmentations and/or Equipment Augmentations
  - **Forced Cost Expenses – Mandatory**
    - **X – External:** Forces Beyond Control: Legal, Contractual, Risk Management, Health/Safety, Utilities, Insurance, etc.
    - **C – Critical Operations:** Campus Would Shut Down Without Funding
    - **E – Enrollment Management:** To Support Student Access/Success
    - **V – Program Viability:** Crucial for the Department/Program to Function
  - **Expense Savings/Efficiencies:** Incorporate these into the budget when possible to provide funding for other budget needs



## Budget Development

- **Integrated Budget and Planning**
  - Meet Regularly With a Budget Advisory Committee That Includes Faculty, Staff, and Administrators
  - Establish a Budget Calendar With Major Due Dates
  - Establish Budget Parameters As A Framework for Budget
  - Follow Clear Processes to Analyze Resources and Allocations to Ensure They Align With Strategic Planning Objectives That Reflect the District's Priorities
- **Develop Budget on Standards and Criteria For Fiscal Stability**
  - Balanced Budget – Revenues Exceed Expenses
  - Fund Balance/Reserves are Adequate
  - Salaries/Benefits At/Below 85%
  - 50% Law Requirement Met
- **Adopt Tentative Budget No Later Than July 1** (CCR, Title 5 58305)
- **Adopt Final Budget No Later Than September 15** (CCR, Title 5 58305)

## Fund Balance

- **State Chancellor's Office Recommends 5% Minimum**
  - Establish a Board Policy and Budget Parameters that Guide Budget Development
  - Establish At Or Consistently Above the Recommended Reserve
  - Disclose with Budget and Monthly Financial Reports
  - Should Be Stable or Increasing Due to Ongoing Revenue Increases and/or Expense Reductions
  - Include Designated Reserves for Unfunded Liabilities or One-Time Costs Above Recommended Reserve Level
  - Communicate with Budget Committee and Other Groups
- **Statewide Fund Balances In 2014-15**
  - 20% to 36.5% 24 Districts
  - 10% to 19.9% 33 Districts
  - 6% to 9.8% 12 Districts
  - Below 6.0% 3 Districts

## Structural Deficit vs. Balanced Budget

- Current Year Revenues Equal or Exceed Current Year Expenses
- Budget Attainable Revenue Estimates
- Avoid Deficit Spending in Current Year and/or 2 Subsequent Years
- Fund Balance – Not an Option To Correct Deficit Spending
- **One-Time Funds – Contribute to Deficit Spending**
- Board Approved Plan to Eliminate Deficit Spending
  - Ongoing Revenue Increases
  - Expenditure Reductions

## Balanced Budget Example – Revenue Budget Projections

• <b>On-Going Federal/State/Local Revenues</b>	<b>\$93,000,000</b>
• <b>New State Revenues:</b>	
• Growth @ 3%	\$ 2,400,000
• 2016-17 Base Increase – 2015-16 FTES Incr	\$ 1,200,000
• Base Allocation	\$ 1,100,000
• COLA @ 0%	\$ 0
• Full Time Faculty Allocation – N/A	\$ 0
• Local Revenues	\$ 250,000
• Other State Revenues	<u>\$ 200,000</u>
• <b>Subtotal – New Revenues</b>	<b>\$ 5,150,000</b>
▶ <b>Total Revenues</b>	<b>\$98,150,000</b>

## Balanced Budget Example – Expense Budget Projections

• <b>Expenses – Status Quo From Prior Year</b>	
• Salaries & Benefits	\$ 77,100,000
• ISA Contract Expense	\$ 3,000,000
• Operating Expenses	\$ 5,200,000
• Utilities	\$ 2,500,000
• Capital (Computers, Software)	\$ 1,500,000
• Supplies	\$ 1,000,000
• Transfer Out	<u>\$ 2,600,000</u>
• <b>Total Status Quo Expenses</b>	<b>\$92,900,000</b>

## Balanced Budget Example – Expense Budget Projections

<b>STATUS QUO EXPENSES</b>	<b>\$92,900,000</b>
• <b>FIXED Costs</b>	
• FT Faculty Hires - 24 (13 Fall/11 Spring)	\$ 1,500,000
• STRS/PERS Regulatory Increases	\$ 900,000
• Negotiated Increases	\$ 750,000
• Steps/Columns	\$ 600,000
• Adjunct – To Backfill FT Faculty Release Time	\$ 400,000
• Other Fringe Increases- Salary Increases/New Staff	\$ 350,000
• (STRS, PERS, OASDI, Medicare, SUI, LTD)	
• Utilities	\$ 100,000
• Property & Liability Insurance	\$ 100,000
• <b>SUB-TOTAL FIXED COSTS</b>	<b>\$ 4,700,000</b>
• <b>Forced Costs</b> (Submitted Through Program Review)	<b>\$ 450,000</b>
• <b>Total New Expenses</b>	<b>\$ 5,150,000</b>
• <b>TOTAL EXPENSES</b>	<b>\$98,050,000</b>

## Balanced Budget Example – Revenue/Expense Budget Projections

• <b>Revenue Budget Projections</b>		
• On-Going Revenue	\$ 93,000,000	
• New Revenues	<u>\$ 5,150,000</u>	
• <b>Total Available Revenue</b>	<b>\$ 98,150,000</b>	
• <b>Expense Budget Projections</b>		
• On-Going Expenses	\$ 92,900,000	
• New Expenses	<u>\$ 5,150,000</u>	
• <b>Total Projected Expenses</b>	<b>\$ 98,050,000</b>	
• <b>Beginning Fund Balance</b>	<b>\$ 10,000,000</b>	<b>9.6%</b>
• <b>Net Revenue/Expense</b>	<b><u>\$ 100,000</u></b>	
• <b>Projected Ending Fund Balance</b>	<b>\$ 10,100,000</b>	<b>10.3%</b>

## Contingency Reserve – Economic Uncertainty

- **Establish a Designated Contingency**
  - To Absorb Mid-Year Cuts
  - To Generate Additional FTES if Growth Funding is Available
  - To Develop New Programs
  - To Protect Against Potential Liability
- **Establish Additional Reserves in Other Funds**
  - Capital Projects Fund for Scheduled Maintenance
  - Capital Projects Fund for Equipment Replacement
  - Internal Service Fund for OPEB Obligations (GASB 45)
  - Internal Service Fund for STRS/PERS Increases
  - Debt Service Fund for Future Debt Obligations
- **What is a Reasonable Reserve?**
  - 5% - Only 1 Month of Expenses
  - Current Fund Balance Range – 10 to 30%
- **Establish Multiyear Financial Projection to Maintain or Restore Reserve**



## Multiyear Projections

- **Develop Projections Based on Reasonable Assumptions**

Revenue	Assumptions
Base Revenue: Apportionment, Prop Tax, Enrollment Fees, RDA	Prior Year Revenue Adjusted Up for Prior-Year One-Time Apportionment Deficit
Growth	Based on Chancellor's Office Target Adjusted for Local Assumptions
COLA	Based on Statutory Percentage
Lottery	Based on Projected Rates per FTES
PT Faculty	Status Quo Allocation
Local Revenue	Assumptions based on trends for Civic Center, Grant Indirect, International Students Program, Community Education, Lease Revenues

## Multiyear Projections

- **Develop Projections Based on Reasonable Assumptions**

Expenses	Assumptions
Staffing Increases	Faculty Increase for FON, Staff increase based on historical trends
Adjunct Increases	Adjust Based on FTES Projections and FT Staffing Levels
Steps/Columns	Per Bargaining Agreements/Salary Schedules/Position Control
Grant Expenses to Institutionalize	Staffing and Expenses Institution will fund after grants conclude
Fringe Benefit Increases	STRS/PERS Increases, Fixed Fringe, Worker's Comp, Health and Welfare
Discretionary Expenses	Assume Status Quo or Approved Through Program Review/Formula
Equipment	Approved Through Program Review – Based on Obsolescence or Program Changes
Fixed Cost Increases	Approved Through Program Review - Administratively Identified: Utilities, Insurance, etc.
Forced Cost Increases	Approved Through Program Review: Critical, External, Enrollment, Program Viability

### A Framework for Fiscal Stability and Compliance

## Budget Monitoring

- Update Assumptions Through the Year As Updated Information Becomes Available
  - FTES, Full-Time Staff Hires, Liabilities, etc.
- Analyze Revenues and Expenses – Savings/Shortfall Variance Analysis
- Complete Budget Revisions/Transfers in a Timely Manner
  - Submit to Board for Monthly Review/Approval
- Monitor and Control Contributions to Restricted Programs
- Ensure Self-Supporting Funds Are Meeting Revenue/Expense Projections to Avoid District Subsidy
- Reconcile Balance Sheet Accounts Regularly
- Notify Departments of Insufficient Budget Funds for Purchasing Requisitions
- Provide Regular Reports on Budget Shortfalls for Department/Districtwide Expenditures
- Complete and File Quarterly and Annual Fiscal Reports by Deadlines

## Cash Flow and Cash Monitoring

- **Manage Cash in All Funds Without Interfund Borrowing**
- **If Interfund Borrowing Occurs, Repay the Funds Within the Statutory Period – Ed Code 85220-85223**
  - No More than 75% of a Fund May be Borrowed
  - Borrowing from Bond Funds is Prohibited
  - Borrowing Within the First 8 Months – Must be Repaid by Year End
  - Borrowing Within the Final 120 Calendar Days – Repaid in the Same Fiscal Year/ Following Fiscal Year
- **Verify Cash Receipts and Disbursements Monthly**
- **Reconcile Cash Balance to Bank Statements Monthly**
- **Establish a Plan to Address Short-Term Cash Flow Needs**
  - TRANS (Inter-Year)
  - County Borrowing (Intra-Year)

## Debt

- **GASB 45 – OPEB / Retiree H&W**
  - Establish Regular Actuarial Study to Determine Liability
  - Establish a Plan To Address Retiree Benefit Liabilities
  - Establish a Irrevocable vs. Revocable Fund
  - Conduct a Re-Enrollment Process to Identify Eligible Retirees
- **GASB 68 – STRS/PERS Pension Liability**
  - Recognize and Report Proportionate Share of Net Liability
- **COPS, TRANS, Bridge Financing**
  - Maintain Low Levels of Non-Voter Approved Debt
- **Long-Term Debt**
  - Identify Funding Source For Repayment of District Debt
  - Provide Updates to Board of Status of Increases/Decreases

## Leadership Stability

- District Chancellor and/or Chief Business Officer Has Been With the District for More Than 2 Years
- District Senior Administration Demonstrates a Depth and Breadth of Experience
- Board of Trustees Reflects Long-Term Stability
- Governing Board Allows District Administration to Manage Staff and Operations
- Board Policies and Procedures Are Adopted and Revised to Ensure Currency
- Leadership Makes Planning and Flexibility a Priority to Take Advantage of Opportunities That Meet the Needs of Students and Community

# The Framework for Fiscal Stability and Compliance

- **Strong Leadership**
  - The CEO and CBO Have Fiduciary Responsibilities With Regulatory and Legal Implications
- **Fiscal Transparency and Cooperation**
  - The Tone is Set at the Top – Board, Administration, Faculty, and Staff
- **Fiscal Oversight and Accountability**
  - Plan and Develop Multi-Year Budgets
  - Review and Report Budget Performance
  - Monitor Fiscal Transactions Regularly
- **Compliance**
  - Understand Regulatory Requirements
  - Implement Appropriate Internal Controls

# The Framework for Fiscal Stability and Compliance

- **Protecting Against Future Fiscal Uncertainty**
  - Planning – Integrate Budget with Strategic Planning
  - Budget – Project Using Reasonable Assumptions
  - Enrollment – Monitor Regularly and Adjust as Necessary
  - Revenues – Develop Accurate Projections & Identify Additional Revenue Sources
    - Grants/Partnerships/International Students Programs/Local Revenues
  - Staffing – Maintain Current Salary/Benefit Information
    - Position Control
  - Debt – Recognize District Obligations in Projections
    - GASB 45 – OPEB, GASB 68 - STRS/PERS
  - Manage Cash – Spend Restricted Dollars First
    - Lottery, Block Grant, Categorical, State and Federal Grants

**Forgo Expensive Budget Decisions Unless The Funding is Available**

- ***“How Will Today’s Decisions Affect Future Year’s Budgets?”***



## Resources

- **California Community Colleges Chancellor's Office**

The College Finance and Facilities Planning Division oversees the distribution and formulation of policies that determine the distribution of local assistance and capital outlay funds for the 72 community college districts. The division represents the system in advocating for local assistance and capital outlay funds with the Legislature and the Department of Finance. The division includes the following units: Facilities Planning, Fiscal Services, and Fiscal Standards & Accountability.

- <http://extranet.cccco.edu/Divisions/FinanceFacilities.aspx>

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## Resources

- **ACCJC – Accreditation Commission**
  - <http://www.accjc.org/>
- **FCMAT – Fiscal Crisis & Management Assistance Team**
  - <http://fcmat.org/>