

New Rules for a New Game

A FCMAT Perspective

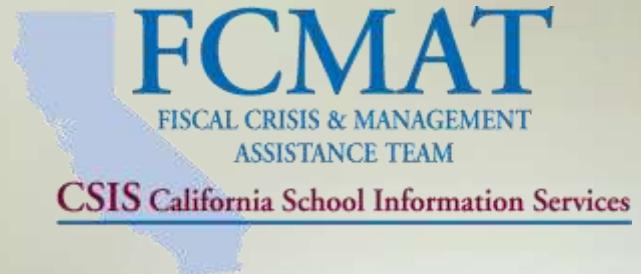
**Association of Chief Business Officials
Spring Conference
May 18, 2010, Sacramento**

Presented by:

Joel Montero

Chief Executive Officer

Fiscal Crisis and Management
Assistance Team



Overview

- The Economic Environment—A Game Changer
- Current State Budget Issues
- The Components of Fiscal Trouble Remain the Same
- What is the Fiscal Focus Now?
- Cash
- Questions

California Economics-A Moving Target

- Revenues Stabilizes but Assumptions Fail
- Consumer Confidence Improves in 2010
- Housing and Property Taxes
- Unemployment
- Recovery and the Lag
- Why Community Colleges are Disproportionally Impacted

The Current Status—The CA Budget

- \$19.1 billion deficit at June 30, 2010
- Significant downside risk on Revenue Assumptions
 - Readjust \$6.9 billion from Feds (Politics!)
- 2010-11 Negative COLA -0.39%
- 2.2% Enrollment Growth (~26,000 FTES)
- \$6 million Property Tax Decline
- Competitive CalGrant Awards Come Back
- Loss of Federal TANF at \$6 million
- CCC CalWORKs redirect? \$26.7 million
- Cash Deferrals Alive and Well

What is “Financially Troubled?”

- A financially troubled district:
 - May have a history of deficit spending
 - May have CCFS 311/311Q reports that reveal fiscal issues
 - May have GF unrestricted fund balance that is trending negative regarding the percentage related to expenditures and other outgo
 - Cannot maintain a prudent, GF unrestricted fund balance of 5%
 - May not be able to conform to multiyear projection standards
 - May not have enough cash to meet its obligations
 - May have audit issues
 - Has poor communication with the Systems Office
 - Cash issues

Common Causes of Financial Problems

- Overly optimistic estimates of state economics
- Declining enrollment or unstable enrollment/FTES
- Failure to document or change budget assumptions
- **Loss of control of staffing levels and costs**
- Underestimating “automatic” cost growth
- Use of one-time money for ongoing expenses
- **Poor decisions at the negotiating table**
- **Failure to consider the multiyear impact of budget decisions**
- Poor budget monitoring by the CEO and Board
- **Chronic deficit spending**
- Inadequate reserves
- **Debt and unfunded liability issues**

Enrollment and FTES

- K-12 Enrollment is on the Decline (Prop 98 Impact)
- Community Colleges serve 2.8 million Students (75% of post secondary)
- Had been predicting 1.5% annual growth through 2011-12
 - Between 2006-07 and 2008-09 ~9%+ Growth!
- Still CA population anticipated to be 44 million in 2050
 - Population growth has significant impact on CC enrollment as does a struggling economy
 - 1.5 million in the 19-24 age sector
- Other associated problems
 - Space and Facilities
 - Vocational Education Programs are Expensive

Simple Cash Flow

- The difference between the available cash balance at the beginning of an accounting period compared to the available cash balance at the end of the accounting period.
- Cash flow is the actual inflow and outflow of funds.
- Negative cash flow can be mitigated by borrowing

Cash Insolvency

- Generally speaking Cash Insolvency occurs when the cash in payroll exceeds the cash available in the county treasury (or other possible sources of cash) and all options for borrowing have been exhausted.
- Cash insolvency is a limited function of deficit spending, erosion of fund balance, and sustained negative cash flow over time.

So, What's the Big Deal?

- The old days.....
- Loss of revenue and cuts
- Cash deferrals
- Erosion of fund balance and reserves in all funds
- Limited, expensive borrowing options

Finding Cash When You Need It

- Community colleges can borrow to meet cash flow demands both internally and externally
- The rules are not covered in the Education Code or Title V but are referred to as an allowable practice in the Budget and Accounting Manual.
 - Cash flow loans are short term—generally within the fiscal year
 - Proceeds from borrowing can be used for any operational purpose
- Internal borrowing—Best practice???
 - Term—within the fiscal year, or.....
 - Only 75% of the cash in the “donor” fund
 - The receiving fund must earn enough to pay back the loan?
 - But what about bond funds??
- External borrowing
 - Tax and Revenue Anticipation Notes (TRANs) GC 53852
 - From your County Treasurer or COE—EC 85220, 85221, 85222

Stabilizing Budgets

- The Governor's May Revision budget still has significant downside revenue risks
- Create your development budget based on the best information you have but....
- Don't kick the ball into next year

Stabilizing Budgets

- Do not commit future dollars to salary and benefits
- Reconsider staffing where and if you can
- Growth??
- Surplus property
- Make budget reductions decisions early
- Collective bargaining

What Can Districts Do Now in Anticipation of an Uncertain Fiscal Environment

- The FCMAT Alert:
 - Plan—Current plus Two Years
 - Review your Assumptions regarding Interest Income
 - Spend Restricted Dollars First and Conserve Cash
 - Enrollment and Staffing
 - Build Reserves
 - Don't Panic
 - Be Careful About Debt including OPEB Bonds
 - Manage Cash
 - Time for a Continuous Apportionment for Community Colleges

What Can Districts Do Now in Anticipation of an Uncertain Cash Environment

- Have a system in place to analyze and monitor cash flow—all funds
- Report cash flow status and projection to the admin & board on a regular basis
- Conserve cash when possible—all funds
- Build Reserves/Fund Balance—all funds
- Consider creating spending plans to manage available cash
- Consider options for dry period financing (borrowing)
- Don't run out!

Summary

- The fiscal management game for public agencies has changed in CA.
- The state's budget situation is tenuous but improving?
- Community Colleges are vulnerable in this budget.
- In the final analysis fiscal failure is still caused by the same old things.
- Community colleges are now and will continue to be the destination of choice for most post-secondary students.
- Cash flow and Cash insolvency are misunderstood by most college administrators and governing boards.
- We are far away from an adopted budget for 2010-11.
- As always conservative planning is key.
- FCMAT is a group designed to assist education agencies

The Role of FCMAT

- Primary mission: assisting PK-14 education agencies in identification, prevention, and resolution of financial problems
- FCMAT staff and consultants perform studies and analyses at the request of education agencies, not just when there is trouble, but to promote effective and efficient operations
- May be called in by the district, the CC Board of Governors, Legislature, or the Governor

The Role of FCMAT

- FCMAT can help in:
 - Determining the extent of the problem
 - Providing facts that help resolve disputes
 - Developing recovery plans
- FCMAT also advises legislators on the need for state loans
- FCMAT can be a valuable resource before you get into trouble, so ask for help
- If you get into trouble, FCMAT will almost certainly play a role in your recovery

Questions?