

Avoiding The Pitfalls

A FCMAT Perspective

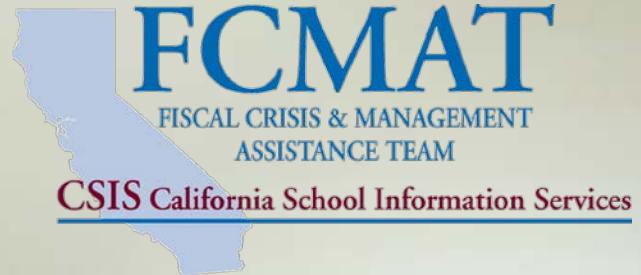
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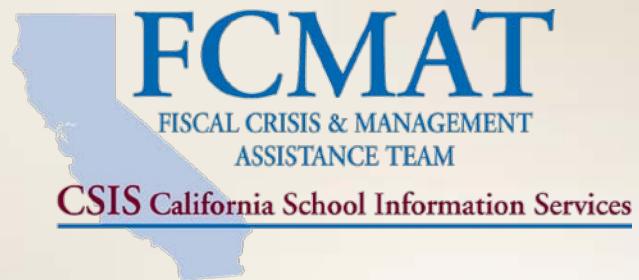


Overview

- The Economic Environment—A Primer for Sound Planning
- Definition of “Financially Troubled”
- How Do CC Districts Get Into Trouble?
- Current State Budget Issues
- What is the Fiscal Focus Now?
- Attachments

Beginning with Basic Economics

- The National Economy and Budget Collapse
- Lack of Consumer Confidence
- A Correction in the Housing Market
- Tightening of the Credit Markets
- Construction and Unemployment
- Is it a Revenue or Expense Problem?
- The Perfect Storm???



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

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 issues

Enrollment and FTES

- K-12 Enrollment is on the Decline (Prop 98 Impact)
- Community Colleges serve 2.5 million Students (70% of post secondary)
- Have been predicting 1.5% annual growth through 2011-12
 - Less than 8% total from 2002-2006
- Still CA population anticipated to be 44 million in 2050
 - Population growth bodes well for CC enrollment as does a struggling economy
- That darned CAP!
- Other associated problems
 - Space and Facilities
 - Vocational Education Programs are Expensive

Loss of Control of Staffing Levels and Costs

- Personnel costs represent the lion's share of the budget – 80%-85%
 - Costs for salary schedule maintenance
 - Pay raises
 - District-paid benefits
 - OPEB
 - All of these factors affect the budget dramatically
- Position control systems control numbers of people, assignments, and, therefore, personnel costs
- Overstaffing, intentional or unintentional, is the single most common cause of budget problems
- Staffing cost numbers are so big that the problem can get out of control quickly
- If you miscalculate staffing costs, there is not enough money in the rest of the budget to fix it – you must address staffing

Poor Decisions at the Negotiating Table

- The negotiations table is a fiscal danger zone
- Pressure to give more than you can afford can be tremendous
 - “Giving COLA” and finding another way to pay for everything else is a lethal recipe
- Think – and negotiate – based on total compensation
 - Consider step and column, employee benefits as part of any basis for salary increases
- Language issues also cause financial problems
- The CBO/CFO needs to be at the negotiating table and should independently cost out each proposal
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Failure to Consider the Multiyear Impact of Budget Decisions

- FS 05-05 actually requires districts to consider the budget impact on the current year and two subsequent years
- Multi-year planning does not rely on a crystal ball – it is the mathematical consequences of the actions of today
- Most major budget failures can be traced to specific events and decisions
- The Systems Office should intervene if your multiyear projections are less than positive
- We recommend you do a “sensitivity analysis” on your projections
 - What happens if COLA assumptions go up or down?
 - What if FTES assumptions change?
- Failure to look to the future may ensure that your own “future” ends early

Chronic Deficit Spending

- Deficit spending means we are spending more than we take in
- Some deficit spending may be planned when balances have been built up to allow a large one-time expenditure
- Most deficit spending is unplanned and uncontrolled
- Sooner or later you will run out of reserves
- Address the causes of deficit spending early
- Make the cuts while they are painful but not life-threatening for the district

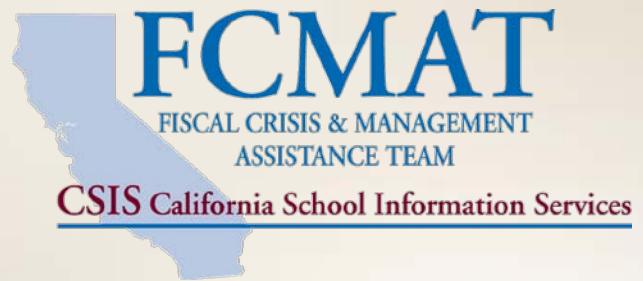
The Role of FCMAT

- 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

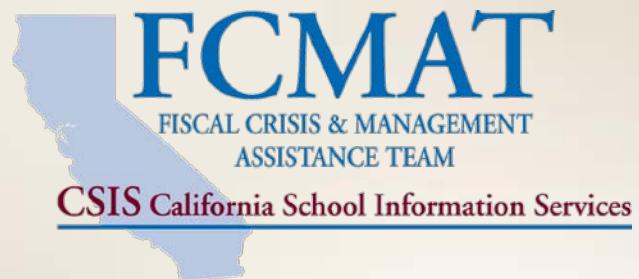


Responsibilities of the District

- Characteristics of districts that avoid Pitfalls:
 - Recognize when they have a problem
 - Don't mask the problem (bad news does not improve with age)
 - Take advantage of financial expertise available
 - Work collaboratively with oversight agencies
 - Are constantly Reassessing their Fiscal Position and Health
- Characteristics of districts that require severe measures:
 - Deny they have a problem
 - Resist scrutiny from outsiders
 - Don't seek external assistance
 - Combative with oversight agencies
 - Panic

Summary

- A CEO and CBO/CFO have legal fiduciary responsibilities
- The vast majority discharge this duty well
- FS 05-05 requires fiscal transparency and cooperation
- A District and its Board must simultaneously:
 - Review and report past budget performance
 - Monitor and revise the current year budget
 - Plan and prepare future budgets
- FCMAT is an agency designed to assist education agencies
- If a board gets into financial trouble, the System Office must step in
- The state does not “bail out” Districts from financial troubles
- A state loan comes with a state trustee



Current State Budget Issues

- CASH
- Current Year and Budget Year Strategies re: COLAs
- The Governor's January Budget
- Mid Year Reductions?
- The Status of Proposition 98

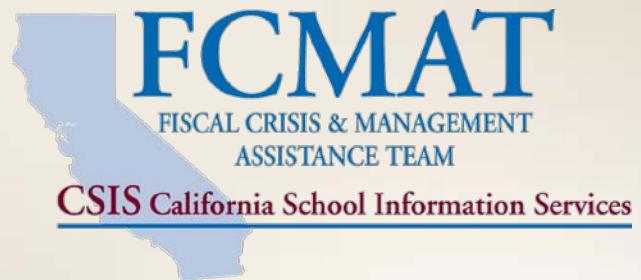
What Can Districts Do Now in Anticipation of an Uncertain Fiscal Environment

- 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

Attachments On the FCMAT Web Site

www.fcmat.org

- FCMAT Alert—Community Colleges
- FCMAT Alert—OPEB Bonds
- FCMAT Alert—Cash Investments in the County Treasury
- Accounting Advisory: Monitoring and Assessment of Fiscal Conditions FS05-05 (California Community Colleges Systems Office)
- Sound Fiscal Management Self-Assessment Checklist



Questions?

