California Community Colleges
Advisory Workgroup on Fiscal Affairs
January 23, 2015 Meeting Notes

The Advisory Workgroup on Fiscal Affairs' January meeting was divided into two parts, the first part of the meeting focused on identifying fiscal indicators to support the Institutional Effectiveness initiative. For this portion of the January meeting, the workgroup was joined by guests invited to attend and participate in a discussion to identify fiscal indicators to be recommended for consideration. In addition to the invited guests, several other guests were in attendance to observe the discussion and process used to identify the fiscal indicators.

<u>Workgroup Members in attendance:</u>
Bonnie Ann Dowd – San Diego CCD
Ann-Marie Gabel – Long Beach CCD
Sharlene Coleal – Santa Clarita CCD
Theresa Matista – Los Rios CCD
Kathy Blackwood – San Mateo CCD
Chris Yatooma – Sierra Joint CCD
Jeff DeFranco – Lake Tahoe CCD
Teresa Scott - Yosemite CCD
Peter Hardash – Rancho Santiago CCD
Sue Rearic – Grossmont/Cuyamaca CCD
Tom Burke – Kern CCD
Vinh Nguyen – Los Angeles CCD
Dan Troy – CCC Chancellor's Office
Ryan McElhinney – CCLC
Fred Williams – ACBO President (non-voting member)

<u>Invited Guests:</u>
Norv Wellsfry, Accrediting Commission for Community and Junior Colleges (ACCJC)
Michelle Plumbtree, Fiscal Crisis & Management Assistance Team (FCMAT)
Charlie Ng, Mira Costa CCD, Government Finance Officers Association (GFOA)
Roderick Carter, RBC, Rating Agencies

A complete list of all in attendance for this portion of the meeting is listed at the end of the minutes.

Chair Dowd called the meeting to order at 9:30 a.m. and facilitated the discussion related to the fiscal indicators. The meeting began with introductions and a review of the agenda for today's meeting along with the task the Workgroup on Fiscal Affairs has been assigned related to the development of fiscal indicators to be used to support the Institutional Effectiveness Initiative.

- ❖ **<u>Institutional Effectiveness Discussion</u>**

The Budget Act of 2014 included funding for the California Community Colleges Chancellor's Office (Chancellor's Office) to implement an Institutional Effectiveness Initiative. The goal of the initiative is to enable the Chancellor's Office to provide increased oversight while supporting districts and providing tools needed to be successful.

Chair Dowd provided the following background bringing us to this point in the process. Theresa Tena, Vice Chancellor for Institutional Effectiveness at the Chancellor's Office discussed the Institutional Effectiveness Initiative with the ACBO Board. One of the items Theresa discussed was the need to identify fiscal indicators to be used to monitor districts' fiscal health. The Workgroup on Fiscal Affairs was identified as the appropriate body to identify the fiscal indicators to be used to support the Institutional Effectiveness Initiative. The Workgroup on Fiscal Affairs held a special conference call meeting on January 23rd in preparation for today's meeting including identifying invited guests to participate in today's discussion.

Input from Invited Guests

Each of the invited guests was asked to provide some input on the issues their respective agencies look at when assessing a district's fiscal solvency.

Norv Wellsfry, ACCJC- The Accrediting Commission for Community and Junior Colleges has a federal requirement to monitor the fiscal condition of community colleges. Five years ago, the only information they collected was related to a district's reserve amounts; however, it was determined that this was not sufficient information to gauge how a district was doing fiscally. They are now collecting more information annually from the districts using their Annual Fiscal Report Questions which collect information on stability of revenue, expenditures and transfers, liabilities, other post-employment benefits, cash position, and annual audit information. This questionnaire allows the ACCJC to get a more complete picture of Community College districts' fiscal health. Composite measures are reviewed to determine if a problem may exist. The ACCJC may take a more in depth look at that district if it is determined to be needed.

To mitigate the different sizes of the districts, it was recommended to use percentages rather than quantities; this enables more commonality of comparison. Norv advised that we should not be looking at one measure, but rather use multiple measures and look at the composite score on all the measures. He also discussed the importance of using longitudinal data rather than looking at a single year. Districts are not to be compared against one another, but instead compared to themselves over multiple years. Although there are guidelines for the various data elements, a longitudinal analysis is a more useful comparison to assess whether a district is in trouble.

Michelle Plumbtree, FCMAT- The Fiscal Crisis and Management Assistance Team (FCMAT) serves California's local education agencies (LEAs) by providing fiscal crisis intervention and management assistance. As part of that responsibility, FCMAT provides information, services, professional development, software and products to the state's county offices of education, school districts, charter schools and community colleges, as well as policy makers, throughout California. The tools that FCMAT has developed are used primarily by K12 LEAs, but many could assist community college districts as well. The FCMAT Fiscal Health Risk Analysis questionnaire and FCMAT's Indicators of Risk or Potential Insolvency are two of the tools that could easily be modified to assist community colleges, and have actually been used by some colleges as a self-assessment tool to assess their own district's fiscal health.

Michelle stressed the importance of doing multiyear projections to predict how a district will be doing in the future, using the most up to date assumptions in order to assist in projecting future revenues, costs and other trends, in correlation with the district's own known past and current information and data. County offices of education have worked together since 2008 to develop and distribute a "common message" to give guidance to K12 districts on budgets and interim reports, which provides the best estimates for current and future items such as COLA, interest, lottery, inflation factors, etc., that districts can then use to run their projections. Although K-12 districts are statutorily required to prepare multiyear projections, FCMAT recommends that community college districts also prepare them to assist with projecting and ensuring future fiscal solvency, as all stakeholders must understand the impact that past and current decisions will have on future solvency. Multiyear projections are the tool to best reflect that information.

Some members of the workgroup supported the idea of multi-year projections, and stated it would be especially helpful if these were presented and approved by the local board on an annual basis. Others stated that without a common message like the one put out in K12, it could be difficult for community colleges to do multi-year projections that are reliable and would have factors for future years that are considered reliable and consistent to what other colleges are using.

<u>Charlie Ng, Mira Costa CCD, GFOA</u>- The Government Finance Officers Association (GFOA) operates a Budget Awards Program, which offers awards for high quality budget documents, the intent is to demonstrate for the community what is a high quality budget document. In the past, there was very little community college and K12 participation in the program so the GFOA applied for a grant that incentivizes community college and K12 participation in a new best practices in budgeting program with a goal of raising the quality of community college and K12 budgeting practices. Charlie highlighted the importance of sharing best practices so that others can benefit, he also stressed that the planning and effort put in at the beginning of the year greatly impact the outcome at the end of the year.

<u>Roderick Carter, RBC, Rating Agencies</u>- Roderick Carter discussed four areas they look at when assessing fiscal health. He stated that strength in one area may make up for weakness in another. The four areas are as follows:

- Economic Base- How large is it, how diversified? Wealth levels, urban get higher score than rural
- Financial Indicators-This is an area where districts exercise control, - financial flexibility, fund balance, alternate liquidity, community supported, and other factors.
- Management Factors- How does management make decisions? Is there a written policy on fund balance? What happens if it goes below? How fast would it be replenished? How is the relationship with bargaining units?
- Debt- Considers the debt of the district/agency being assessed as well as agencies that overlap including cities, counties, school districts.

Rod stated that the rating agencies do a horizontal and vertical review to get a better idea of a district's overall fiscal health and to make sure the rating is consistent with both similar and overlapping agencies.

Recommended Fiscal Indicators:

After discussing various potential approaches, the Workgroup created the following list of six fiscal indicators that could be used to assess fiscal health. It was recognized that these indicators are a starting point, which could be used in year one to establish a baseline, and that the list of indicators may be expanded going forward into the future. A key benefit of using these indicators is that the information is already reported by the colleges and districts and is collected and summarized by the Chancellor's Office.

- **Salary and Benefits –** Salaries and benefits as a percentage of unrestricted general fund expenditures, excluding other outgoing expenditures. This indicator demonstrates the district's ability to support other operating expenses.
- **Full-Time Equivalent Students –** Annual number of full-time equivalent students. This indicator accounts for the district's primary source of unrestricted general fund revenue - its enrollment.
- **Annual Operating Excess/Deficiency –** Net increase or decrease in unrestricted general fund balance. This indicator demonstrates a district's ability to maintain its current expenses in alignment with its current revenues.
- **Fund Balance –** Ending unrestricted general fund balance as a percentage of total expenditures and other outgoing. This indicator demonstrates a district's ability to maintain solvency and its flexibility to adjust to unforeseen circumstances.
- **Cash Balance –** Unrestricted and restricted general fund cash balance, excluding investments. This indicator demonstrates a district's ability to fund operating expenses from internal resources.
- **Audit Findings –** Such as a "Modified" opinion, material weaknesses, or significant deficiencies as identified in annual independent audited financial statements. This indicator demonstrates a district's internal control structure and ability to operate within state and federal program guidelines.

<u>OPEB Liabilities</u>- The workgroup had some discussion around whether or not to include an indicator that looks at districts' other post-employment benefits (OPEB) liabilities. While the workgroup recognized the significance of OPEB liabilities as a long-term debt obligation, they ultimately decided not to include it as an indicator in year one. However, this issue will be revisited at a later time for potential inclusion in a subsequent year's baseline indicators.

<u>Parking Lot issues for subsequent discussions related to Fiscal Indicators</u>

- Longitudinal analysis
- Weighting
- Forward look
- Uniformity, consistency
- Policy/procedure
- Include narrative explanation
- Timing- When will districts do the examination?
- Look at the overall order of the categories

After expressions of appreciation to invited and other guests in attendance for today's discussion, a short break was held with the Workgroup on Fiscal Affairs reconvening its regularly scheduled meeting at 12:30 p.m. Given the limited time available for the meeting, a brief discussion followed to address the Growth Formula and potential next steps and setting of future meeting dates through June 2015.

Future Meetings Schedule:
Skip Feb meeting
March 6th, 9am-3pm, Lunch provided by CCLC
March 27th, 9am-3pm Lunch provided by ACBO
April 10th, 9am-3pm (tentative), Lunch provided by the Chancellor's Office
May 1st, 9am-3pm, Lunch provided by CCLC
June 4th, 9am-3pm, Lunch provided by ACBO

Growth Formula Update:
The hope is that the Chancellor's Office will be able to get a one year postponement on the implementation of the growth formula. Whether it is postponed or not, the Workgroup members agree that the formula needs some work. The legislature has been hearing that the growth formula is a problem from districts and CCC stakeholders, as well as the Chancellor's Office.

Members asked that the Chancellor's Office run a simulation of the growth model created by the workgroup using the Governor's proposed growth funding for 2015-16 ($106.9M); so that members would have an idea of the amount of growth they would be eligible for in 2015-16 if the formula is implemented as it is currently in law.

The Chancellor's office will identify some data for the group to review at its March 6th meeting. It is important to acknowledge the merit of the overarching goal; to serve underserved communities. This is one of the primary missions of the system; however, there are better ways of accomplishing that goal and other goals for all 72 districts without disruption and to ensure enrollment planning meets the needs of all communities served by all 72 districts.

❖ **Attendees at the January 23, 2015 Meeting:**

- Bonnie Ann Dowd – San Diego CCD
- Ann-Marie Gabel – Long Beach CCD
- Sharlene Coleal – Santa Clarita CCD
- Theresa Matista – Los Rios CCD
- Kathy Blackwood – San Mateo CCD
- Chris Yatooma – Sierra Joint CCD
- Jeff DeFranco – Lake Tahoe CCD
- Teresa Scott - Yosemite CCD
- Peter Hardash – Rancho Santiago CCD
- Sue Rearic – Grossmont/Cuyamaca CCD
- Tom Burke – Kern CCD

- Vinh Nguyen – Los Angeles CCD
- Fred Williams – ACBO President (non-voting member)
- Ryan McElhinney – CCLC
- Dan Troy – CCC Chancellor’s Office
- Diane Brady – CCC Chancellor’s Office
- Mario Rodriguez– CCC Chancellor’s Office
- Natalie Wagner – CCC Chancellor’s Office (staff)
- Michael Yarber– CCC Chancellor’s Office (staff)
- Tracy Britten – CCC Chancellor’s Office (staff)
- Norv Wellsfry, Accrediting Commission for Community and Junior Colleges (ACCJC)
- Michelle Plumbtree, Fiscal Crisis & Management Assistance Team (FCMAT)
- Charlie Ng, Mira Costa CCD, Government Finance Officers Association (GFOA)
- Roderick Carter, RBC, Rating Agencies
- Paul Steenhausen, Executive Director of the Success Center for California Community Colleges
- Barry Gribbons, College of the Canyons, Managing the Institutional Effectiveness Grant