Executive Summary

FCMAT’s review of CCSF is not intended to be viewed as a comprehensive audit. The scope of work was conducted to determine how CCSF projects and allocates its fiscal resources and to determine if CCSF’s budget assumptions and methods were reasonable. The review and assessment includes recommendations to help CCSF maintain its fiscal solvency and avoid state intervention.

Prior to FCMAT’s review in July, the Accrediting Commission for Community and Junior Colleges (ACCJC) visited CCSF in March of 2012 and officially delivered an order of show cause. This is the most severe sanction of the ACCJC short of terminating an institution’s accreditation. Show cause occurs when the ACCJC finds an institution in substantial noncompliance with the commission’s eligibility requirements, accreditation standards or policies, or when the institution has not responded to the condition previously imposed by ACCJC.

The ACCJC conducted its own independent review to determine accreditation status for CCSF, and results of that report are separate and distinct from the assessment performed by the FCMAT team.

Fiscal Health Analysis

City College of San Francisco (CCSF) has not developed a plan to fund significant liabilities and obligations such as retiree health benefits, adequate reserves, and workers’ compensation costs. Further, it has been subsidizing categorical programs with unrestricted general fund monies regardless of the effect on the general fund, and has provided salary increases and generous benefits with no discernible means to pay for them. The college has also used temporary one-time measures to mitigate its operating deficits, thus deferring difficult decisions to the future. These deficiencies raise significant concerns regarding CCSF’s ability to maintain solvency because of the unknown outcomes of an upcoming local parcel tax measure and the governor’s November 2012 state tax measure referred to as Proposition 30.

Multiyear Financial Projection

CCSF’s 2012-13 tentative budget is balanced in terms of anticipated revenues and expenditures, but it assumes and depends on passage of the governor’s November 2012 tax measure. Most of the expenditures savings in the tentative budget are one-time concessions from the employee groups for 2012-13 only, which means that CCSF will again need to make reductions for 2013-14. Even with the passage of the governor’s tax measure, CCSF projects a $13 million shortfall in fiscal year 2013-14. CCSF cannot afford to wait and see if the local parcel tax is approved before implementing expenditure reductions. To maintain financial solvency, reductions for 2013-14 and beyond must be ongoing rather than temporary.

CCSF’s 2012-13 tentative budget does not increase the fund balance. Although the budget recognizes the possibility of a small state funding deficit of 0.7%, in today’s economic climate it is likely that the deficit could be higher, which will further reduce the fund balance. CCSF’s minimal ending fund balance leaves no margin for error or unexpected changes to the budget; either could result in fiscal insolvency.

The below table summarize the four possible scenarios prepared by CCSF staff for fiscal year 2012-13. These scenarios vary based on whether the different tax measures pass.
Fiscal Year 2012-13 Funding Scenarios

<table>
<thead>
<tr>
<th></th>
<th>If state tax and parcel tax fail</th>
<th>If state tax passes but parcel tax fails</th>
<th>If state tax fails but parcel tax passes</th>
<th>If state tax and parcel tax pass</th>
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</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$175,093,000</td>
<td>$187,299,000</td>
<td>$189,819,000</td>
<td>$201,064,000</td>
</tr>
<tr>
<td>Adopted Tentative Expense Budget</td>
<td>$186,572,000</td>
<td>$186,572,000</td>
<td>$186,572,000</td>
<td>$186,572,000</td>
</tr>
<tr>
<td>(Deficit)/Surplus</td>
<td>($11,479,000)</td>
<td>$727,000</td>
<td>$2,247,000</td>
<td>$14,492,000</td>
</tr>
</tbody>
</table>

Key assumption: CCSF continues spending at the level of the tentative budget under all scenarios.

There is a possibility that the governor’s tax measure will not pass. Although CCSF has estimated that this would reduce funding by another $11.5 million in fiscal year 2012-13 and beyond, it has not developed a plan to deal with this reduction should it occur, and its ending fund balance is not sufficient to bear the burden.

CCSF is in a perilous financial position. It can afford neither errors in its budget assumptions or accounting treatments nor additional unbudgeted expenses. Even if CCSF is able to maintain its fiscal solvency in fiscal year 2012-13 using the temporary measures it has enacted, it will experience numerous challenging, spending pressures and critical decisions in the future. The four multiyear financial projections (MYFPs) developed by CCSF indicate future insolvency in all scenarios except for the one in which both the governor’s tax measure and the local parcel tax pass, and even then CCSF would remain only marginally solvent. The below table summarizes the effect on fund balance under all four funding scenarios. Even under the best alternative, where both the state and local tax pass, by fiscal year 2014-15 a deficit of $2,512,000 occurs based on current revenue and expenditure trends.

Estimated Deficit/Surplus Projection Scenarios

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<tr>
<th></th>
<th>If state tax and parcel tax fail</th>
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</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>($11,479,000)</td>
<td>$727,000</td>
<td>$2,247,000</td>
<td>$14,492,000</td>
</tr>
<tr>
<td>2013-14</td>
<td>($24,570,000)</td>
<td>($13,354,000)</td>
<td>($10,570,000)</td>
<td>$726,658</td>
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<tr>
<td>2014-15</td>
<td>($27,809,000)</td>
<td>($16,493,000)</td>
<td>($13,809,000)</td>
<td>($2,512,000)</td>
</tr>
</tbody>
</table>

Staffing and Operational Costs

CCSF has employed twice as many full-time faculty per 1,000 full-time equivalent students (FTES) and incurred expenses that are $17 to $18 million higher than comparison districts, while at the same time having a level of classroom productivity (class size) that is less than that of most of the comparison districts. CCSF also employs more classified staff at higher average salaries than the comparison districts.

CCSF’s capital outlay budgets will need to be restored as bond funds dwindle. Retiree health benefits payments will increase from an estimated $6.9 million in fiscal year 2011-12 to $13.0 million annually by 2020-21. Steps added to the classified salary schedule during negotiations will also add significant costs over time. The magnitude of its employee contract obligations makes it difficult for CCSF to continue as a going concern (an organization that is fiscally healthy and able to meet its financial obligations) without change.

CCSF needs to be more aggressive in reducing its expenditures to provide for a structurally balanced budget by implementing ongoing budget adjustments and reductions. This is challenging but is essential to avoid insolvency.
CCSF’s expenditure per full-time equivalent student (FTES) exceeded its state funding (also known as state apportionment revenues) for fiscal year 2011-12 by $637 per noncredit instruction FTES and by $859 per credit instruction FTES. Thus these amounts had to be provided from other funding sources. Based on a revenue and cost analysis, there is no clear evidence that either credit or noncredit is significantly more efficient than the other. The noncredit funding rate is lower, but costs are lower as well. This is largely due to the difference in teaching load: 15 contact hours per week for credit courses versus 25 contact hours per week in the noncredit program. On a proportional revenue and expense basis, the efficiency of credit and noncredit instruction is nearly equal; apportionment revenue pays for 85.34% of the costs associated with credit courses and 83.99% of the revenue required to support noncredit courses.

CCSF’s estimated average rate of pay for a part-time instructor is $113.51 per hour. Based on this rate, the estimated annual cost of one part-time faculty who works the equivalent of full time (one FTEF) is $59,595, or approximately $6,000 per course. FCMAT confirmed these pay rates through information provided by district staff and a review of financial records for fiscal year 2010-11 (the most recent year for which there is certified data) that indicate the total hourly pay in relation to total part-time faculty FTEF. Statutory benefits such as workers’ compensation, unemployment insurance and retirement contributions add 6.6% to this total. In addition, if a part-time faculty member’s teaching assignment is equal to or greater than 50% (7.5 units for credit and 12.5 units for noncredit) of a full-time load, the employee is eligible for health benefits partially paid by CCSF and for fully paid dental benefits.

CCSF’s part-time faculty salary schedule and health benefit provisions in its collective bargaining agreement with the American Federation of Teachers (AFT) Local 2121 have negated any significant short-term cost advantage of using part-time faculty. The lower costs associated with part-time faculty have typically allowed community college districts to maintain their class schedules and offerings at a lower cost, but this is not the case at CCSF.

Through the California Community College Chancellor's Office's (CCCCO's) management information system (MIS), CCSF reported having 842 tenure-track faculty in 2010-11. When all faculty release time is considered, 14% of CCSF's full-time faculty are being released to fulfill nonteaching responsibilities. Thus the equivalent of more than 50 full-time, highly qualified, tenured faculty are serving as department chairs rather than instructing students.

The proliferation of release time is costly, creates a unique administrative structure that is difficult to manage, reduces accountability, and makes coordination and decision-making more challenging.

**Comparison with Similar Districts**

To provide additional context to the analysis of CCSF's fiscal condition, five similar community college districts were selected against which CCSF would be compared in terms of spending, staffing and productivity. The selected districts are Santa Monica, Long Beach, Foothill-De Anza, Mt. San Antonio and El Camino. The comparison revealed many important distinctions that CCSF should consider as it makes future decisions:

- CCSF has significantly more regular full-time equivalent (FTE) employees than the comparison districts, both in total and per FTES.
- CCSF has almost twice the number of tenured faculty as the two largest comparison districts, with 23.52 FTE per 1,000 FTES versus 13.69 and 12.17 for Mt. San Antonio and Santa Monica, respectively.
• CCSF also has significantly more classified staff support than the two largest comparison districts, with 192 more FTE staff than Mt. San Antonio and 243 more FTE staff than Santa Monica.

• CCSF is the third lowest of the comparison districts in productivity for credit classes (FTES per section average). CCSF has both more tenured faculty and lower productivity, which compounds its fiscal burden.

The results of this data support the findings of the staffing analysis. CCSF’s decisions regarding full-time faculty and increases to the salary schedule and benefit provisions for part-time faculty result in higher costs for academic employees, which in turn result in higher total salaries and benefits and higher total costs.

Enrollment Management
CCSF shows little evidence of an effective enrollment management plan. It lacks sufficient data provided in a timely and consistent reporting format to make important enrollment management decisions. Serving students when resources are reduced requires maximizing the use and effect of all available resources, but this is not possible without an effective enrollment management plan.

CCSF’s enrollment management has focused on student recruitment and marketing, student engagement and connection, technology (distance education), counseling and support. Enrollment management must also focus on enrollment goals for campuses and sites, programs and disciplines; the deployment of resources to achieve those goals; and measurement of progress. Enrollment management will be an important tool as CCSF plans course schedules, seeks to control direct costs, and measures progress toward FTES goals. Because revenue is largely driven by service level (FTES), it is imperative that CCSF manage this aspect of its operations effectively.

Administrative Structure
The use of some release time is normal in the community college system; however, the magnitude and types of release time assignments at CCSF are cause for concern. CCSF allows an inordinate amount of release time, which is expensive because of CCSF’s high salary and benefits for the part-time employees who replace full-time employees when they are on release time. A significant part of this release time is for department chairs; other instructional and noninstructional release time makes up the balance. The structure and responsibilities of department chairs at CCSF differ significantly from what is typical at most California community colleges. Specifically, the department chairs at CCSF operate under a separate collective bargaining agreement and have responsibility for decisions about program and course offerings as well as control over release time assignments.

Barriers to Fiscal Solvency
Administrative stability is needed at CCSF. Four of its five vice chancellor positions are interim; the vice chancellor for finance and administration is the only administrative position with history in the district. The chancellor is also an interim assignment.

Interviews revealed that decisions that have serious financial implications are often made but that no one position is accountable for those decisions. Ultimately the governing board and the chancellor must provide leadership and serve as the final authority for important decisions. Fixing the immediate budget problem is imperative, but both the immediate remedy and sustained change depend on recognizing and addressing factors that contribute to poor decisions and a lack of accountability.
The costs of employee contracts have increased through a succession of chancellors. A number of the contract provisions have been added without any consideration of CCSF’s ability to pay in the future. As a result, CCSF is facing potential insolvency, which could significantly affect the organization or require state intervention.

The civil service structure under which CCSF operates is the same as that of the City of San Francisco and is established and maintained in accord with Education Code section 88137. This has both benefits and drawbacks. CCSF is the only community college in California that operates under this structure, which can make creating and managing the classified workforce difficult, especially in times of fiscal crisis, because CCSF often does not have control over who is placed in positions.

Interviewees consistently indicated that CCSF has for many years operated based on power, influence and political whim rather than reason, logic and fairness. Interviewees indicated that CCSF’s focus and purpose, which should be serving students, has been lost and is not the basis for decision making. Rather, the emphasis has been on keeping individuals employed and ensuring that they receive benefits, which is a positive goal but should not usurp any college district’s primary goal of serving students. CCSF’s decisions have diminished the resources available to achieve its primary purpose.

Past decisions have reduced the management team to spectators rather than organizational leaders. For example, determining how many classified employees are needed and what services are required should be a management function, but at CCSF these decisions are made by a committee. This has been costly to CCSF.

Under this organizational and cultural model there is no responsibility or accountability because it is often unclear how or by whom decisions have been made. This has resulted in operational dysfunction, which in turn has contributed to fiscal deficiencies.