

FCMAT News Alert — Community Colleges

Preparing Locally for the Impact of the State Budget

In preparation for dealing with an estimated \$14.6 billion dollar statewide deficit in the 2008-09 California state budget and ongoing discussions in Sacramento regarding 2007-08 midyear budget reductions, many community college districts are now preparing for a period of fiscal uncertainty and challenging financial times ahead. When attempting to balance the budget, community college districts will need to make difficult choices about which expenditures, programs and functions deserve continued funding and which are best scaled back, reconfigured or eliminated. In the short term, community college districts should not hesitate to take immediate actions to help to ensure their solvency over the next two years. For community colleges, the governor's proposal would provide no cost of living adjustment (COLA), reduce growth to 1%, and make across the board reductions to categorical programs.

The Senate budget committee continues to discuss the governor's proposed two month delay in the \$200 million apportionment deferral payment (the governor made similar proposals for K-12 schools and county agencies). Much of the discussion has focused on how this proposal would transition the state's cash flow problem to the local level. The committee continues to try to identify other options to defer payments that would have less impact on local agencies.

The governor has also proposed reducing community colleges' general apportionments by \$40 million in the current year to achieve savings and lower the Proposition 98 minimum guarantee for the 2008-09 fiscal year. At the same time, the governor has indicated that he would like to work with community college stakeholders to identify unspent funds and other one-time savings to eliminate the proposed \$40 million reduction, thus leaving apportionments at current funding levels (the governor has made a similar \$360 million proposal for K-12 schools).

Proposition 92 would reduce community college fees to \$15 per unit and limit fee increases in the future. Under current law, the state provides a minimum level of support (Proposition 98) for K-12 schools and community colleges using a formula tied to changes in the economy and K-12 attendance. Under Proposition 92, the K-12 funding formula would stay the same but community college funding would be tied to a new growth factor based on the young adult population, which is anticipated to increase faster than K-12 attendance. The Legislative Analyst's Office (LAO) estimates that the initiative would require the state to spend approximately \$300 million more during the first three years.

Background

California's community college system is the largest in the nation, with 72 districts, 109 campuses and approximately 2.5 million students. One of the greatest obstacles for community colleges experiencing

financial difficulty is deciding which areas to reduce among the various operational and program priorities. One first step is to create a list of the costs of providing required and/or essential services. Once this list is created and the cost to perform all the required elements is calculated, community colleges can begin to determine how much money, *if any*, is left for discretionary uses such as enhancing course offerings, additional supplies, capital improvements not funded with state monies, and other items that may improve colleges and support the community college district's mission but do not have a dedicated, ongoing revenue source.

This process will also help bring a community college's financial status to the front of the public's consciousness and may help to prompt collaborative efforts to find solutions. As part of its effort to help support colleges as they make fiscal decisions, FCMAT has compiled a list of issues that business officials might consider when cost containment or budget reductions become inevitable. This alert contains industry-standard or best practices regarding areas to evaluate and recommended actions.

Recommended areas for review and possible cost containment

Regular and frequent budget monitoring is always a sound fiscal practice and must be more of a focus in times of fiscal uncertainty. Community colleges that have not already done so should get their budget priorities in order now. Community colleges should ensure that current year budgets and multiyear forecasts are up to date and that the information they contain is accurate and based on the most current assumptions. Economic indicators will change quickly in this environment, so staying connected to current financial information and support such as that provided by School Services of California (SSC) will help keep community colleges informed. It is recommended that community colleges run multiple budget scenarios to assess the impacts of the various COLA and categorical proposals.

FCMAT's goal was to identify the most important things that community colleges should consider in uncertain fiscal times. The list of 16 items below can be viewed as a starting point for local decision making. Because most colleges spend 80% to 90% of all general fund dollars for salaries and benefits, the task, particularly in the current year, is daunting. Nonetheless, it must be done. Take a measured and logical approach and try not to panic.

Faculty/Staffing Impacts

1. To consistently maximize revenues, community colleges need to monitor enrollment year to year to ensure that they meet the funded target for serving full time equivalent students (FTES). Community colleges usually set targets to manage weekly student contact hours per full-time equivalent faculty member (WSCH/FTEF).

Review all staffing to ensure that staffing formulas, ratios and class sizes (which are often specified in collective bargaining agreements) are being followed according to contract. Seniority lists should be established for all employees/positions in case employee layoff notifications need to be issued. Freeze hiring for all vacant nonessential management, certificated and classified positions, unless hiring is required by contract.

2. Reduce the use of adjunct faculty when possible, as well as overtime and all staff on special assignments. Reconcile position control data from the human resources department with the amounts budgeted for salaries and benefits, and capture excess dollars where possible.

Restricted Program Dollars and Other Funds

3. Ensure that categorical restricted resources and other funds are self-supporting to limit general fund contributions. This should include paying for general fund overhead expenses such as direct support, indirect costs, PERS revenue limit reduction, post-retirement benefits and all other costs.
4. Expend restricted dollars first whenever possible, and freeze nonessential purchases using unrestricted dollars, such as travel or equipment. Complete an in-depth review of expenditures being charged to unrestricted funding. Review existing encumbrances and liquidate any balances that will not be expended. Maximize the efficient use of all categorical resources and strive to limit carryover in these programs.

Budget

5. Identify all one-time sources of revenue and corresponding expenditures in the budget to clarify the district's funding sources. Delay making final decisions on any new ongoing costs, such as collective bargaining negotiations and capital leases, until reliable fiscal information regarding the state budget is available to enable a better understanding of the multiyear impact on the district's budget. Quantify the available dollars that can be prioritized for uses that may include salary increases.

Declining Enrollment/FTES

6. The college is required to restore losses in FTES within three years after the initial year of the decline. For example, to restore the lost apportionment revenues from a reduction in FTES during 2004-05, the college must restore the FTES during the 2007-08 fiscal year or earlier.

Colleges must balance the need to attract additional students, or FTES, with the cost of attracting and serving those students. If the cost to serve students is greater than the revenue generated, the college derives no financial benefit. Classes should be of sufficient size and faculty should have a sufficient level of weekly student contact hours to ensure that the cost of serving students does not exceed the associated revenues. The college should also develop or modify its course catalog to provide the programs and classes that are most in demand, and use numerous methods of outreach and advertising to inform the community of its offerings. Space and staffing decisions should take into account the programs and classes with the highest enrollment and interest.

Benefits

7. Review health plan costs for cost containment opportunities such as second opinion requirements and primary physician assignments. Conduct a re-enrollment of employees eligible for health benefits to ensure that employees are not covered after separation from the district and that retiree benefits are not being offered after the contracted age. Review the method used to coordinate Medicare benefits with retiree health plan benefits.

Consider a cap on health benefit plans with the collective bargaining units.

Contracted Services

8. Review contracted services annually to ensure that the community college district is receiving what it is paying for and that a less expensive vendor is not available. This can include professional services such as auditing or legal services, which can be negotiated by requesting competitive quotes.

Long Term Debt, Services and Leases

9. Monitor copy machine costs. Compare the per-copy cost of leases, materials and agreements on existing copiers. Using an outside vendor is sometimes more cost effective because maintenance and replacement costs on older machines are high.
10. Ensure that cleaning standards have been established in the operations department. Cleaning standards that include specific tasks and timelines for each custodian can often reduce costs.
11. Ensure that policies and expenditures for the use of cellular telephones have been reviewed.
12. Review utility costs and alternative programs for potential cost savings.
13. Review all capital leases and certificates of participation (COPs) and evaluate current interest rates for refinancing and to reduce debt service.
14. Review the college's credit card policy and consider eliminating the use of credit cards.

Multiyear Financial Forecasting

15. Keep multiyear financial projections up to date and use them to guide ongoing financial decisions.

Prepare for Reduction in Force (RIF)

16. It is likely that community colleges with a declining rate of enrollment growth will be required to consider and prepare for a RIF that would go into effect at the beginning of fiscal year 2008-09 if implemented. Preparation should include distribution of layoff notices by the required date. Community colleges will also need to remain in compliance with the 50% law if layoffs are implemented. Notice that FCMAT references this impact for colleges with *a decline in the rate of enrollment growth*. In FCMAT's view, this means that this is an issue not only for colleges with flat or declining FTES but also for those that may not be growing as quickly as projected or as quickly as they have in previous years. Colleges simply cannot afford to be overstaffed in this economic environment. If an assessment indicates the need for a RIF, get up to speed on the process and get the college's seniority list in order.

Community colleges and community college districts should strive to keep their governing boards, staffs and communities informed regarding college finances. As is always the case, good communication is one of the keys to surviving in uncertain economic times.

Because each community college has a unique combination of services, programs and mission statements, a one-size-fits-all template does not work for budget reductions, cost containment strategies or other adjustments. Although there is no definitive list of procedures that all community colleges should follow when identifying areas to assess and maintain solvency, many of the items identified in this alert are common to all. Continue to visit the FCMAT Web site (www.fcmat.org) for updates to this document.

On September 28, 2005, Governor Schwarzenegger signed into law Assembly Bill (AB) 1366 (Lieber, D-Mountain View), which enhances fiscal accountability in higher education by authorizing the Board of Governors of the California Community Colleges or a community college district to request the Fiscal Crisis and Management Assistance Team (FCMAT) to assist a community college in need of fiscal management review. AB 1366 has expanded FCMAT's role in assisting California's community college districts for the foreseeable future. If your district needs management assistance, please visit the FCMAT Web site at www.fcmat.org.