

Coast Community College District

Monitoring and Assessing the Fiscal Condition

March 3, 2011

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Pursuant to Education Code Section 84040, the Board of Governors is required to adopt criteria and standards for the periodic assessment of the fiscal condition of California community college districts. In October 2005, the State Chancellor's Office, in accordance with this requirement, issued standards for sound fiscal management and a process to monitor and evaluate the financial health of California's community college districts.

The purpose of these standards is multi-faceted. While this Self Assessment serves as an early warning indicator for the State Chancellor to identify those districts that may benefit from preventative management assistance and those that may require fiscal crisis intervention to prevent emergency loans, it is far more commonly used as a tool by local districts to prompt institutional dialogue and discussion about meaningful fiscal and management issues.

These standards are based on the principles of sound fiscal management that are contained in California Code of Regulations (CCR) Section 58311.

This Self Assessment is retrospective in nature generally examining the 2009-10 fiscal year. You'll note a few references to more recent events where it seems appropriate and provides context. Part of the content is focused on the prior year external audits which are not completed and submitted to the State until December which drives the completion of this document into the third quarter of the fiscal year.

Sound Fiscal Management Self-Assessment Checklist

1. Deficit Spending - Is this area acceptable?

Is the district spending within their revenue budget in the current year?

No, deficit spending has occurred as noted by declining fund balance (See #2 below)

Has the district controlled deficit spending over multiple years?

Fund balance has declined for several years but this has been part of a deliberate budget strategy as noted in #2 below.

Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions?

It is addressed primarily through fund balance and spending reductions.

Are district revenue estimates based upon past history?

Underlying budget assumptions are based upon past history, student demand, funding availability and state budget forecasts, among other factors.

Does the district automatically build in growth revenue estimates?

Growth funding is recognized as on-going revenue only in the year following its receipt.

Sound Fiscal Management Self-Assessment Checklist

2. Fund Balance – Is this area acceptable?

Is the district's fund balance stable or consistently increasing?

Fund balance has been declining in recent years; however, this has been a deliberate strategic move to blunt the impact of structural budget reductions.

<i>Year</i>	<i>Fund Balance</i>
2009-10	\$19,698,262
2008-09	\$21,096,788
2007-08	\$23,601,080
2006-07	\$28,794,303
2005-06	\$19,125,024

Is the fund balance increasing due to on-going revenue increases and/or expenditure reductions?

No

Sound Fiscal Management Self-Assessment Checklist

3. Enrollment - Is this area acceptable?

In the midst of this economic downturn demand for educational services has far outstripped supply. As noted below the workload reduction actually reduced the number of funded FTES the district was able to serve. However, following the maxim of access and service to students and the community, as many as 1,500 unfunded FTES were being served by the Coast district during this period.

Has the district's enrollment been increasing or stable for multiple years?

Growth funding has been very volatile in recent years. In the 2009-10 year a workload reduction was imposed on the system and Coast had its funded Full-time Equivalent Students (FTES) reduced by nearly 3.5%. In the 2010-11 year Restoration funding was initially provided but was so uncertain it was not planned for at the beginning of the year.

Year	Credit FTES
2009-10	35,350
2008-09	36,564
2007-08	34,702
2006-07	34,154
2005-06	29,848

Sound Fiscal Management Self-Assessment Checklist

3. Enrollment (cont.)

Are the district's enrollment projections updated at least semiannually?

Yes, enrollment management is an on-going process

Are staffing adjustments consistent with the enrollment trends?

Yes, the major component of the 2009-10 FY workload reduction and subsequent budget reduction solution was an Early Notice separation program and ultimately more than 100 previously funded positions were eliminated. Clearly, all faculty, staff and administrators are being asked to do more with less.

Does the district analyze enrollment and full time equivalent students (FTES) data?

Yes, Finance and Administration and Educational Services work closely with the colleges to project and manage enrollment.

Does the district track historical data to establish future trends between P-1 and annual for projection purposes?

Yes, this is an important component of Coasts' enrollment management process.

Has the district avoided stabilization funding?

The District has not been in a Stabilization funding mode in recent years.

Sound Fiscal Management Self-Assessment Checklist

4. Unrestricted General Fund Balance – Is this area acceptable?

Is the district's unrestricted general fund balance consistently maintained at or above the recommended minimum prudent level (5% of the total unrestricted general fund expenditures)?

As noted above, Fund Balance has been declining however as the summary shows the minimum prudent reserve level has been met.

Is the district's unrestricted fund balance maintained throughout the year?

We have not sought board approval to transfer funds out of the reserve; however, fund balance fluctuates based on cash flow.

Sound Fiscal Management Self-Assessment Checklist

5. Cash Flow Borrowing - Is this area acceptable?

Can the district manage its cash flow without inter-fund borrowing?

Generally yes; however, the governor did not sign the 2010-11 FY state budget into law until mid-October and funds were temporarily moved from the insurance fund to bolster the General fund. That fund was made whole in November following approval of the state budget and release of apportionment funding.

Is the district repaying TRANS and/or borrowed funds within the required statutory period?

The District has not participated in short-term external borrowing.

Sound Fiscal Management Self-Assessment Checklist

6. Bargaining Agreements - Is this area acceptable?

Has the district settled bargaining agreements within new revenue sources during the past three years?

The district has in the past offered compensation above state funded COLA levels; some tied to classroom revenue growth opportunities. The district must carefully scrutinize the structure of compensation packages in the future so as not to exacerbate an internal operating deficit.

Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? *Yes*

Did the district correctly identify the related costs? *Yes*

Did the district address budget reductions necessary to sustain the total compensation increase?

One time funds out of ending fund balance were used to address the 09/10 internal operating deficit.

Sound Fiscal Management Self-Assessment Checklist

7. Unrestricted General Fund Staffing - Is this area acceptable?

Is the district ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses?

This has occurred only as an intermediary solution

Is the percentage of district general fund budget allocated to salaries and benefits at or less than the statewide average (i.e. the statewide average for 2003-04 is 85%)?

The District has quite reasonably sought to close budget deficits in recent years through reductions in non-salary accounts. Following this strategy through several successive very challenging budget years has served to drive up the proportion of the Unrestricted General Fund (UGF) dedicated to salaries and benefits.

Year	Total UGF	% UGF to salaries/benefits
2009-10	\$187.8m	90%
2008-09	\$193.1m	88%
2007-08	\$195.2m	84%
2006-07	\$177m	84%
2005-06	\$159.5m	88%

Sound Fiscal Management Self-Assessment Checklist

8. Internal Controls - Is this area acceptable?

Does the district have adequate internal controls to insure the integrity of the general ledger?

Yes, the District and its sites have historically maintained adequate segregation of duties as well as physical and electronic safeguards over assets and information. The external auditors are also required to review the adequacy of the District's internal controls and have consistently provided us with a clean opinion.

Does the district have adequate internal controls to safeguard the district's assets?

Yes, the District has various controls in place to ensure that assets are properly tracked and accounted for, including tagging of fixed assets and annual inventories performed at the campus level. In addition, groups such as the Continuous Improvement Team monitor the adequacy and efficiency of the controls over the capture and reporting of electronic data.

Sound Fiscal Management Self-Assessment Checklist

9. Management Information Systems - Is this area acceptable?

Is the district data accurate and timely?

Yes

Are the county and state reports filed in a timely manner?

Yes

Are key fiscal reports readily available and understandable?

Yes

Sound Fiscal Management Self-Assessment Checklist

10. Position Control – Is this area acceptable?

Is position control integrated with payroll?

Yes

Does the district control unauthorized hiring?

Yes

Does the district have controls over part-time academic staff hiring?

Yes, generally this is a control present at the college level

Sound Fiscal Management Self-Assessment Checklist

11. Budget Monitoring - Is this area acceptable?

Is there sufficient consideration to the budget, related to long-term bargaining agreements? *Yes*

Are budget revisions completed in a timely manner? *Yes*

Does the district openly discuss the impact of budget revisions at the board level? *Yes*

Are budget revisions made or confirmed by the board in a timely manner after the collective bargaining agreements are ratified? *To the extent necessary*

Has the district's long-term debt decreased from the prior fiscal year? *Yes*

Has the district identified the repayment sources for the long-term debt? *Yes*

Does the district compile annualized revenue and expenditure projections throughout the year? *Yes, with quarterly updates*

Sound Fiscal Management Self-Assessment Checklist

12. Retiree Health Benefits - Is this area acceptable?

Has the district completed an actuarial calculation to determine the unfunded liability?

Yes. This study is updated at least every two years.

Does the district have a plan for addressing the retiree benefits liabilities?

The District has joined the Community College Leagues Joint Powers Authority for Retiree health benefits. The district budgets its actuarially determined Annual Required Contribution (ARC) each year.

Sound Fiscal Management Self-Assessment Checklist

13. Leadership/Stability - Is this area acceptable?

Has the district experienced recent turnover in its management team (including the Chief Executive Officer, Chief Business Officer, and Board of Trustees)?

With one exception all the executive management team is newly hired. All seven executive positions (Presidents, Vice Chancellor's and the Chancellor) are now filled. It should be noted that the Chancellor recently announced her departure and a search committee has been formed and a recruitment effort is now underway

Sound Fiscal Management Self-Assessment Checklist

14. District Liability – Is this area acceptable? Yes / No

Has the district performed the proper legal analysis regarding potential lawsuits that may require the district to maintain increased reserve levels?

Yes. The District's Risk Services Manager routinely communicates with District General Counsel on all claims, litigation, and potential claims arising from or related to District business operations. Recommendations on claim rejection or acceptance are received by the District's SWACC JPA (self-insurance pool) assigned claims examiner. All claims filed with the District are presented for Board of Trustee consideration and action (denial or acceptance) pursuant to the California Government Code. Claimants are notified in writing of the District's governing board's determination immediately following board deliberation and decision.

The District's Risk Services Department works with the Statewide Association of Community Colleges Joint Powers Authority (SWACC JPA) third-party administrator, Keenan & Associates, to set reserves for each item of litigation, and to manage the legal costs incurred in managing each matter. All claims are reported to the SWACC JPA for administrative purposes, and for use in determining the District's experience modification factor within the SWACC JPA.

Sound Fiscal Management Self-Assessment Checklist

14. District Liability – (cont.)

Has the district set up contingent liabilities for anticipated settlements, legal fees, etc?

Yes. The District participates in the SWACC JPA, of which more than one-half of California Community Colleges are members. The District's exposure to direct costs for specific types of claims are defined by the District's selected member-retained limit ("MRL" or deductible) for each policy year. The District typically retains direct financial liability for general liability claims between \$50k and \$100k per/claim. The District typically retains direct financial liability for property claims between \$5k and \$10k per/claim. The District's MRLs vary each renewal period based upon evaluation of cost and experience factors, including prior claims/litigation history, and market conditions for insurance purchased by the JPA. The Risk Services Manager actively participates on the SWACC JPA executive board, claims and coverage committee, and underwriting committee.

The Risk Services Department has established a settlement trust account in the sum of \$35k, for purposes of settling minor claims, subject to board approval, so as to minimize potential for litigation. The settlement trust account is replenished periodically as settlement activity occurs.

Sound Fiscal Management Self-Assessment Checklist

14. District Liability – (cont.)

The Risk Services Department monitors all legal invoices, excluding District General Counsel's billings, for billing reasonableness and error. The SWACC JPA sets defined hourly rate caps for attorneys handling District legal matters, generally between \$150 to \$175 per/hour. All legal fees charged are reviewed by the SWACC JPA for reasonableness and necessity.

The District's annual insurance rates (property, general liability) are based upon our experience compared to the SWACC JPA pool members. The pool average is assigned a 1 value, with member claims/litigation experience either performing better than average, in which case their member "experience modification factor" (X-mod) is less than 1, or their claims/litigation experience exceeds pool average experience, and their X-mod is greater than 1. The X-mod is used to determine member contributions for the annual insurance renewal period. The span for X-mod rates is between .50 (low) to 2.0 (high). The District historically maintains among the lowest X-mod rates for both property and liability X-mods, typically between .60-.77 for both liability and property categories.

Sound Fiscal Management Self-Assessment Checklist

15. Reporting – Is this area acceptable?

Has the district filed the annual audit report with the System Office on a timely basis?

Yes

Has the district taken appropriate actions to address material findings cited in their annual audit report?

Yes

Has the district met the requirements of the 50 percent law?

Yes

Have the Quarterly Financial Status Reports (CCFS-311Q), Annual Financial and Budget Reports (CCFS-311), and Apportionment Attendance Reports (CCFS-320) been submitted to the System Office on or before the stated deadlines?

Yes