Hartnell College
Fiscal Review

May 24, 2006

FISCAL CRISIS
& MANAGEMENT ASSISTANCE TEAM

Administrative Agent
Larry E. Reider
Kern County
Superintendent of Schools

Chief Executive Officer
Joel D. Montero

FCMAT

Fiscal Crisis
& Management
Assistance
Team

Administrative Agent
Larry E. Reider
Office of Kern County
Superintendent of Schools

Chief Executive Officer
Joel D. Montero

1300 17th Street – City Centre
Bakersfield, CA 93301-4533
Telephone............661-636-4611
Fax............................661-636-4647
Web site.............www.fcmat.org

422 Petaluma Blvd. North, Suite C
Petaluma, CA 94952
Telephone............707-775-2850
Fax............................707-775-2854

May 24, 2006

Edward J Valeau, Superintendent/President
Hartnell College
156 Homestead Avenue
Salinas, CA 93901

Dear President Valeau:

In January, 2006, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from Hartnell College for a review that would perform the following:

1. Assist the college in updating the procedures used to forecast annual F.T.E.S. used for the purpose of budgeting for revenue, expenditure, and staffing allocations.

2. Conduct an analysis of the college's annual budget and prepare a multiyear financial forecast for the 2006-07 and 2007-08 years.

3. Complete a Fiscal Health Analysis of the college using the California Community Colleges Sound Fiscal Management Self-Assessment Checklist to determine the college's current level of financial risk.

FCMAT visited the college April 11-13, 2006 to interview employees, review documents and gather information. This report is the result of those activities. We have appreciated the opportunity to serve you, and we extend our thanks to all the staff of Hartnell College.

Sincerely,

Joel D. Montero, Chief Executive Officer

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Foreword

FCMAT Background

The Fiscal Crisis and Management Assistance Team (FCMAT) was created by legislation in accordance with Assembly Bill 1200 in 1992 as a service to assist local educational agencies in complying with fiscal accountability standards.

AB 1200 was established from a need to ensure that local educational agencies throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve fiscal procedures and accountability standards. The legislation expanded the role of the county office in monitoring school districts under certain fiscal constraints to ensure these districts could meet their financial commitments on a multiyear basis. AB 2756 provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans. These include comprehensive assessments in five major operational areas and periodic reports that identify the district's progress on the improvement plans

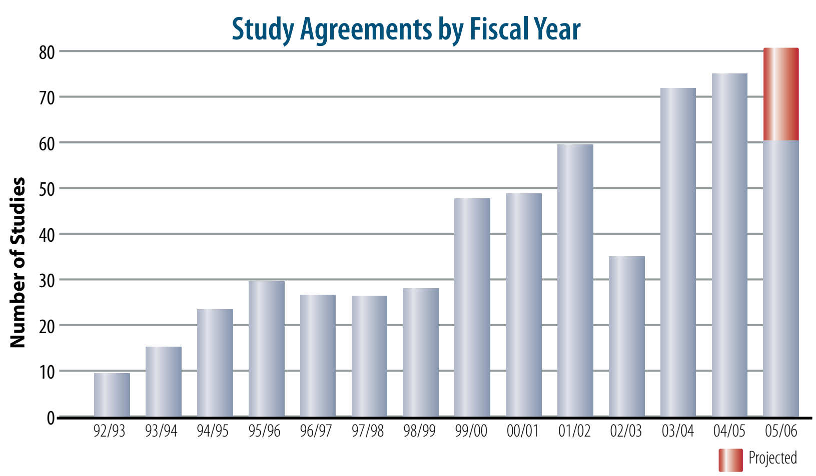
Since 1992, FCMAT has been engaged to perform more than 500 reviews for local educational agencies, including school districts and county offices of education. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Total Number of Studies 562
Total Number of Districts in CA.......... 982

Management Assistance	513	(91.28%)
Fiscal Crisis/Emergency	42	(7.47%)
Emergency Loan	7	(1.25%)

Note: Some districts had multiple studies

(Rev. 4/7/06)



Introduction

Background

Located in the city of Salinas, Hartnell College is one of the oldest educational institutions in the state. Founded as Salinas Junior College in 1920, the facility was renamed Hartnell College in 1949. The Hartnell Community College District was formed in 1949. The college draws its students from Salinas and the surrounding communities of Bradley, Castroville, Chualar, Greenfield, Jolon, King City, Lockwood, Moss Landing, San Ardo, San Lucas, Soledad and adjacent rural areas. The college offers day, evening, and weekend classes to meet the needs of students who work or have other outside commitments.

On September 28, 2005, the Governor signed into law Assembly Bill 1366, Lieber, Community colleges: fiscal accountability: County Office Fiscal Crisis and Management Assistance Team (FCMAT). This legislation includes provisions that permit community colleges to request fiscal crisis or management assistance services from FCMAT.

In 2003-04 and 2004-05 Hartnell College experienced declining enrollments. The 2004-05 decline resulted in a decrease in the level of available financial resources. Hartnell's reserves were sufficient to sustain operations while allowing time for evaluation and planning. In January 2006, the President and Vice President/Assistant Superintendent of Administrative Services of the college contacted FCMAT to request a fiscal review of the College budget based on the provisions of Assembly Bill 1366.

The scope of work determined between the college and FCMAT requested the assignment of a study team to perform the following:

- Assist the college in updating the procedures used to forecast annual FTES used for the purpose of budgeting for revenue, expenditure, and staffing allocations.

- Conduct an analysis of the college's annual budget and prepare a multi year financial forecast for the 2006-07 and 2007-08 years.

- Complete a Fiscal Health Analysis of the college using the California Community Colleges Sound Fiscal Management Self-Assessment Checklist to determine the college's current level of financial risk.

Study Team

The study team included the following members:

Barbara Dean
FCMAT Deputy Administrative Officer
Bakersfield, CA

*Ann-Marie Gabel
Assistant Vice Chancellor, Fiscal Services
Rancho Santiago Community College
Santa Ana, CA

*Theresa Matista
Associate Vice Chancellor, Finance
Los Rios Community College District
Sacramento, CA

Leonel Martínez
FCMAT Public Information Specialist
Bakersfield, CA

*As members of this study team, these consultants were not representing their respective employers, but were working solely as independent contractors for FCMAT.

Study Guidelines

The study team visited the college on April 11-13, 2006 to conduct interviews and gather documents. This report represents the full findings and recommendations developed by the team.

Executive Summary

Hartnell College is facing the same impact of declining enrollment as approximately one-third of the community colleges within the state. As a result, Hartnell must begin to make decisions to maintain a balanced budget, provide competitive compensation to employees, and consider instructional options that will lead to increased student participation.

The college should establish procedures for FTES projections that involve key staff from the business office, Admissions and Records, and the Office of Instruction in order to incorporate all the related factors of classes offered, available students, and the level of revenue needed to support annual college costs. The college also should consider assigning the Enrollment Management Team (EMT) the task of evaluating and reporting on factors that must be considered to maximize efficient use of the college's instructional resources to reduce staffing costs.

The FCMAT study team developed a two-year financial forecast for the college, using the 2005-06 adopted budget as the base year for building future projections. Although the percentage changes in expenditure categories show little change, the ongoing level of structural deficit spending will continue to draw down available reserves unless the college is able to develop a balanced budget for each fiscal year.

FCMAT's financial forecast projects that the college will fall below the 5% reserve level recommended by the System Office during fiscal year 2006-07 and will fall into a negative fund balance situation during fiscal year 2007-08 if the current level of structural deficit spending continues without either revenue enhancement or expenditure reductions. The college should carefully review the FCMAT financial forecast and consider decreasing discretionary expenditures starting with fiscal year 2006-07 in an effort to maintain at least a 5% reserve level. The college also should conduct a thorough review of full-time equivalent students (FTES) and efficiency levels to determine if a greater growth percentage can be achieved or if savings can be incurred through increasing the average class size.

The FCMAT study team completed an assessment checklist for Hartnell College. The assessment indicates a total score of four "No" responses, placing the district in the moderate range of risk. The assessment shows that the level of ongoing deficit spending has contributed to the decline in available reserves. Without making positive changes that will result in a balanced annual budget, the district reserves will fall below the required 5% reserve level, potentially requiring intervention by the Systems Office.

Findings and Recommendations

Forecasting Annual FTES

Hartnell College is facing the same impact of declining enrollment as approximately one-third of the community colleges within the state. As a result, Hartnell must begin to make decisions to maintain a balanced budget, provide competitive compensation to employees, and consider instructional options that will lead to increased student participation.

The number of full time equivalent students (FTES) since 2001-02 is shown in the following table:

2001-02	2002-03	2003-04	2004-05	2005-06
6,903	7,329	6,728	6,328	6,409

Community college funding is primarily based on the number of FTES, which is derived from the number of total student contact hours. Each student contact hour represents a minimum of 50 minutes of course instruction. One FTES is equivalent to 525 student contact hours. Three basic methods are used to calculate student contact hours depending on the time period and frequency in which a student populated course meets. The attendance method preferred should be the one that provides the greatest potential course hours. The three methods include the following:

- Weekly Census method – Used for regularly scheduled credit courses, scheduled coterminously with the primary term;

- Daily Census method – Used for regularly scheduled credit courses that are five or more days in length, but are not scheduled coterminously with the primary term; and,

- Positive Attendance method – Used for all other courses that do not fit the previous two categories.

The current process for projecting FTES for budgeting purposes at Hartnell College is conducted in the business office, based on past trends and any additional information that is known to affect student enrollment. The administrators of Admissions and Records and Office of Instruction do not participate in this process.

In Spring 2005, the college created an Enrollment Management Team (EMT) made up of faculty, managers, and classified staff. An initial goal of the EMT was to increase the student head count by three percent for fall 2005 and to increase the spring 2006 count by an additional three percent. Through multiple efforts, the fall head count increased by 5.1% and the spring head count increased by 3.3%.

The EMT, a relatively new committee, has not yet begun to interact with the business office during the development of projected FTES. The study team believes that a partnership between the business office, Admissions and Records, and the Office of Instruction can strengthen the college's ability to evaluate the number of classes and students that will drive budgeting for growth revenue assumptions and related instructional staffing. To this end, a business office representative should become an active participant at EMT meetings. Data from all three sources should be reviewed during EMT discussions, the results of which should be used by the business office to complete the FTES enrollment projections. As in other colleges throughout the state, the EMT should be supported as a strategic enrollment management partner.

The CCFS-320 report, the Apportionment Attendance Report filed by the college with the System Office, should be reviewed and discussed by the EMT from both a business and instructional perspective to validate the assumptions used in preparing the report and to promote the understanding of how FTES affect funding. Although the business office has conducted numerous informational presentations on this topic in the past, there is still a need to expand efforts to promote a greater understanding of the program-based funding model among the staff and faculty.

Other components of student enrollment must be considered annually. As an example, efficiency goals for instructional faculty should be established by discipline. Inherent limitations within each discipline can result in varying achievable efficiency levels, such as ratios that must be maintained in a nursing program. However, by balancing low-efficiency offerings with high-efficiency ones and working to ensure each area achieves its goal, the college can offer a full range of programs at reasonable cost. While other operational areas should also be reviewed to reduce costs, improvements in efficiencies can generate significant savings without a reduction in services. A 5% improvement in efficiencies translates to approximately 1.5 more students per class. The savings based upon adjunct salaries would likely exceed $300,000.

Recommendations

The college should:

1. Establish procedures for FTES projections that involve key staff members from the business office, Admissions and Records, and the Office of Instruction in order to incorporate all the related factors of classes offered, available students, and the level of revenue needed to support annual college costs.

2. Consider assigning the Enrollment Management Team (EMT) to evaluate and report on factors that must be considered when maximizing efficiency goals in classes by discipline in order to reduce staffing costs.

3. Complete the following once FTES projections have been established:

    - Communicate FTES projections to Human Resources to plan for necessary growth in full-time faculty in accordance with the full-time faculty obligation established by the System Office.

    - Cost out the schedule of classes to utilize FTES as the control for adjunct and not-in-contract staff (regular faculty overload) to ensure the expenditures are within the required staffing level.

    - Develop weekly student contact hours (WSCH) goals by department to achieve the FTES and allocate FTEF using efficiency goals.

Multiyear Financial Forecast

The FCMAT study team developed a two-year financial forecast for the college, using the 2005-06 adopted budget as the base year for building future projections. The forecasts by fiscal year are as follows:

	Projected Budget		Projected Budget	
	June 30, 2007		June 30, 2008	
Revenues:				
Federal	-	0.00%	-	0.00%
State	16,578,589	48.75%	18,089,340	50.87%
Local	17,426,574	51.25%	17,469,208	49.13%
Total Revenues	34,005,163	100.00%	35,558,549	100.00%
Expenditures:				
Academic Salaries	12,696,379	35.47%	12,825,111	34.87%
Classified Salaries	7,361,736	20.57%	7,876,302	21.42%
Employee Benefits	7,715,707	21.55%	7,855,474	21.36%
Supplies & Materials	426,918	1.19%	442,626	1.20%
Other Operating Expenses	7,242,379	20.23%	7,426,289	20.19%
Capital Outlay	352,321	0.99%	352,321	0.96%
Total Expenditures	35,795,440	100.00%	36,778,123	100.00%
Excess/(Deficiency) of Revenues				
over Expenditures	**(1,790,277)**		**(1,219,574)**	
Other Financing Sources	100,000		100,000	
Other Financing Uses	(71,042)		(71,042)	
Net Increase/(Decrease) in Fund Balance	**(1,761,319)**		**(1,190,616)**	
Beginning Fund Balance	2,657,530		896,211	
Ending Fund Balance	**896,211**	2.50%	**(294,405)**	-0.80%
FTES	**6,627.85**		**6,760.40**	

Although the percentage changes in expenditure categories show little change, the ongoing level of structural deficit spending will continue to draw down available reserves unless the college is able to develop a balanced budget for each fiscal year.

Revenue Assumptions

For the 2006-07 fiscal year, the study team developed revenue assumptions using the 2005-06 base revenue of $29,084,355 which appears on the P-1 report prepared by the System Office. Added to this base revenue were the following components:

- $581,687 for growth revenue, using a 2% growth factor;
- $1,506,570 for a cost-of-living adjustment (COLA), using 5.18% as provided in the Governor's January budget proposal; and
- $534,698 for equalization based on the System Office's compromise allocations.

The team then applied a .5% deficit factor totaling $158,537. The net effect of the changes brings the total adjusted base revenue to $31,548,773. (See the following table.)

For the 2007-08 fiscal year, the team used the 2006-07 adjusted base revenue of $31,548,773 and added:

- $630,975 for growth, using a 2% growth factor; and
- $1,072,658 for COLA, using 3.4% as provided by the School Services of California Dartboard.

A .5% deficit factor was applied totaling $166,262. The net effect of the changes brings the total adjusted base revenue to $33,086,145. (See the following table.)

		2006-2007 2% Growth 5.18% COLA		2007-2008 2% Growth 3.4% COLA
Apportionment Base Calculation:				
Base Revenue		29,084,355		31,548,773
Equalization		534,698		-
COLA		1,506,570		1,072,658
Growth		581,687		630,975
New Base		31,707,310		33,252,407
Deficit Factor at .5%		(158,537)		(166,262)
Adjusted Base Revenue		**31,548,773**		**33,086,145**

Enrollment fee revenue was increased by 2% each year to coincide with the projected FTES growth.

Lottery revenue is funded based on the FTES generated during the year. A portion of this revenue is unrestricted, and a smaller portion is restricted for instructional materials purchases. Due to this restriction, the team forecasted the Lottery revenue based on the projected FTES using the rate provided by the School Services of California Dartboard for the unrestricted portion. This is a change in the way that the college typically budgets Lottery revenue. All other revenue amounts are equal to the 2005-06 adopted budget amounts.

Expenditure Assumptions

The study team used the college's expenditure assumptions from the 2005-06 adopted budget with the following changes:

- An increase to the salary amounts by step-and-column assumptions provided by college personnel totaling $268,298 (this amount did not factor in any potential resignations and/or retirements that could potentially reduce the cost of step and column);
- An additional $375,000 for new maintenance and operations staff proposed for hire in 2006-07;
- $426,000 added to other benefits to cover the shortfall in retiree benefits identified in the 2005-06 fiscal year by college staff;
- A reduction in supplies equal to the restricted lottery revenue as discussed above; and
- Application of a 3% Consumer Price Index (CPI) factor as identified by the School Services of California Dartboard to all operating and services expenses, excluding travel and conference.

The following table summarizes these changes:

	2006-07		**2007-08**
2005-06 Adopted Budget less Interfund Transfers	34,293,639		34,293,639
Increase in Salaries for Step and Column	268,298		536,596
Additional M&O staff	375,000		750,000
Retiree Benefits Obligation	426,000		426,000
Increase in Benefits due to increased salaries	341,081		480,848
Decrease in Supplies for Restricted Lottery	(114,600)		(98,892)
Increase in Operating & Services for CPI = 3%	206,023		389,933
Total Expenditures	**35,795,441**		**36,778,124**

It should be noted that the study team did not increase the amount for either full-time or part-time faculty salaries in anticipation of growth since the college has indicated that it is already seven faculty members above its full-time faculty obligation. Adding a 2% growth factor would increase the college's obligation by only two faculty. Furthermore, the team believes that if the college improves efficiency by at least 3%, no additional part-time faculty would be necessary to generate a 2% growth factor.

Fund Balance Assumptions

The fund balance analysis begins with the projected ending fund balance totaling $2,431,775 as reflected in the 2005-06 adopted budget. Based on information provided by college personnel, the following revisions were made to the ending fund balance projected for 2005-06:

- A decrease of $300,000 to pay for the tail claims on Workers' Compensation;
- A decrease of $455,825 to pay for the additional costs associated with the retiree benefits payments;
- An increase of $813,874 for deferred revenue recognized in the current fiscal year; and
- An increase of $167,806 for the onetime revenue received at P-1 from the System Office. These changes resulted in a revised ending fund balance for 2005-06 totaling $2,657,530.

The following table summarizes these changes:

2005-06 Adopted Budget Ending Fund Balance	2,431,775
Workers' Compensation tail claims due	(300,000)
Additional cost of Retiree Benefits premiums	(455,825)
Write-off of previous year's Deferred Revenue	813,774
One-time funds provided by the System Office at P-1	167,806
2005-06 Revised Projected Ending Fund Balance	**2,657,530**

Based on the FCMAT financial forecast, the college will fall below the 5% reserve level recommended by the System Office during fiscal year 2006-07 and will fall into a negative fund balance situation during fiscal year 2007-08 if the current level of structural deficit spending continues without either revenue enhancement or expenditure reductions.

Current Budgeting Practices

The college has a budget committee whose primary role has been to review and allocate the proceeds of block grant funding. The role of this committee could be expanded to provide advisory input on the assumptions used for budget development and adjustments. Improving communication with the budget committee will result in a better understanding of the budget by the larger constituency of the college community. The resources of the college appear to be fairly represented in the budget. Budget committee suggestions on how to use these resources should reflect both financial and instructional priorities and needs.

Recommendations

The college should:

1. Carefully review the FCMAT financial forecast and consider decreasing discretionary expenditures, in addition to identifying expenditure reductions, starting with fiscal year 2006-07 in an effort to maintain at least a 5% reserve level. To achieve a 5% reserve level for fiscal year 2006-07, the measures taken need to garner approximately $894,000. An additional approximate $1.24 million is needed for a 5% reserve level for fiscal year 2007-08.

2. Conduct a thorough review of FTES and efficiencies to determine whether a greater growth percentage can be achieved or whether savings can be incurred through larger class sizes, etc. To achieve a 5% reserve level for fiscal year 2006-07, the measures taken need to garner about $894,000. An additional amount of approximately $1.24 million is needed for a 5% reserve level for fiscal year 2007-08.

3. Consider increasing the activities of the budget committee to include providing input to the administration and President on issues affecting the college budget and financial future.

California Community College Sound Fiscal Management Self-Assessment Checklist

In October 2005 the California Community College System Office issued an accounting advisory for the Monitoring and Assessment of Fiscal Condition based on the provisions of Education Code section 84040 and section 58311 of the California Code of Regulations (CCR). The advisory includes the assessment checklist as the measurement tool.

The FCMAT study team completed the assessment checklist for Hartnell College based on information received during staff interviews, contained in documents provided by the college, or made available through the Community College System Office.

1. Deficit Spending - *Is this area acceptable? No*

- **Is the district spending within their revenue budget in the current year? *No***
  For the current fiscal year, the district is projecting to deficit spend by $1,858,419. The current budget allocations do not include the following: recent invoices received for tail claims on Workers' Compensation that will cost the district an additional $150,000 more than the amount set aside as reserves in the self-insurance fund; additional amounts needed to fulfill the retiree benefits costs totaling approximately $455,825; the write-off of prior years deferred revenue of $813,774; or the onetime revenue received for general apportionment at P-1 totaling $167,806. When combined, these factors will decrease deficit spending to $1,632,664. The deficit spending is attributable primarily to a reduction of $1,623,421 in the district's base funding as a result of declining enrollment in 2004-05. Enrollment projections for 2005-06 do not forecast recovery (restoration) of these enrollments.

- **Has the district controlled deficit spending over multiple years? *No***
  For the years under review by FCMAT, the district deficit spent in fiscal year 2004-05 by $1,484,297 and had projected deficit spending for fiscal year 2005-06 as previously discussed. The district did not deficit spend in the previous three fiscal years.

- **Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions? *Fund Balance***
  The ongoing impact of deficit spending has been absorbed during the past and present years by reserves in excess of the district's 5% reserve level.

- **Are district revenue estimates based on past history? *Yes***

- **Does the district automatically build in growth revenue estimates?** ***Yes***
  The district reviews the average FTES growth over the last few years and applies a conservative estimate for growth revenue projections. However, the growth revenue percentage established for revenues is not communicated to the EMT for incorporation into building the schedule of classes.

2. **Fund Balance – Is this area acceptable?** ***No***

- **Is the district's fund balance stable or consistently increasing?** ***No***
  The previous fiscal year, the district experienced a decline in its fund balance totaling $1,484,297. A further decline in its fund balance is anticipated for the 2005-06 fiscal year, totaling $1,858,419. The reserve level is anticipated to be at 7.09% for 2005-06, but will decrease to 2.50% in 2006-07 and -0.80% in 2007-08 if the current trend of deficit spending continues.
- **Is the fund balance increasing due to on-going revenue increases and/or expenditure reductions?** ***No***

3. **Enrollment - Is this area acceptable?** ***No***

- **Has the district's enrollment been increasing or stable for multiple years?** ***No***
  The district has experienced declining FTES in 2004-05 and 2005-06. This decline is not unique to Hartnell College. In 2004-05, 21 of the state's 72 districts received stability funding due to declining enrollment. In 2005-06 at P-1, the number was 29. The decline coincides with the increase in student enrollment fees. In 2003-04, fees were increased from $11 to $18 per unit and Hartnell experienced an 8% decline in actual FTES (exclusive of summer borrowing). In 2004-05, fees were further increased to $26 per unit, and Hartnell experienced a 6% decline. Other factors have also contributed to the decline such as construction, which has disrupted parking, and a strong economy that may have prompted students to go to work and postpone their educational plan. The district's projected FTES for 2005-06 indicate an increase of 1%. However, due to summer "borrowing" the reported FTES are projected to be down slightly over the prior year. Because current law provides stability funding for only one year, the district's 2005-06 base has been reduced for the 2004-05 decline. The decline in funded FTES is less than the decline in actual due to unfunded FTES in the 2002-03 year of 219 FTES.

2001-02	2002-03	%	2003-04	%	2004-05	%	2005-06	%
6,903	7,329	6%	6,728	(8.2)%	6,328	(6)%	6,409 proj.	1.3%

- **Are the district's enrollment projections updated at least semiannually? *Yes***
  Yes, when viewed from the standpoint of required reporting to the state. It is unclear how the projections are communicated internally and used to adjust course offerings.

- **Are staffing adjustments consistent with the enrollment trends? *Undetermined by the team***
  This area was difficult to assess. As stated previously, the enrollment projections used for budget development do not appear to be clearly communicated or understood by the organization. The relationship between projections and instructional staffing levels also are not well developed so that projections can be used to determine staffing levels. The FCMAT study team did not interview the Vice President of Instruction as he was not on campus during the team's visit. The team was unable to ascertain the level of use of the projections in managing the instructional program needs.

- **Does the district analyze enrollment and full time equivalent students (FTES) data? *Yes***
  The district has an effective reporting tool for analysis of student data, the Executive Management System. An executive summary report of FTES and instructional staffing is readily available to the college staff. There is some concern regarding the accuracy of this report, and it is important that the district address this so that users can feel confident in using the report. If accuracy can be assured, this data is highly useful to support planning and decision-making, including the development of goals specific to a particular department or discipline. Utilization of head count and unit changes for measuring progress toward enrollment goals is limited; these should be used in conjunction with the weekly student contact hour data from the executive summary.

- **Does the district track historical data to establish future trends between P-1 and annual for projection purposes? *Undetermined by the team***
  The financial office does use historical data in projecting the growth rate to be used in budget development.

- **Has the district avoided stabilization funding? *No***
  The district received $1.6 million in stabilization funds in 2004-05. In 2005-06, the district's FTES have further decline, and the district is receiving $354,000 in stabilization funds for 2005-06. The 2004-05 stabilization funding has been reduced for the district's base in 2005-06.

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

   - **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)?** ***Yes***

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

5. **Cash Flow Borrowing - Is this area acceptable?** ***Yes***

   - **Can the district manage its cash flow without interfund borrowing?** ***Yes, per staff***

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

6. **Bargaining Agreements - Is this area acceptable?** ***Yes***

   - **Has the district settled bargaining agreements within new revenue sources during the past three years?** ***Yes and No***
     During both fiscal years 2003-04 and 2004-05, the district negotiated agreements in excess of new funding from COLA, growth, PFE and equalization combined. This is a concern, especially for 2004-05, since the district also experienced declining enrollment. For fiscal year 2002-03, the district negotiated a settlement lower than the new funding received from COLA, growth, PFE and equalization.

Fiscal Year	COLA %	Growth %	Equalization	PFE	Total	SSI*
2004-05	2.41	-0-**	.5%	-.8%	1.61%	3%
2003-04	-0-	1.31	-0-	-.9%	0.41%	1.31%
2002-03	2.0%	2.72	-0-	-.7%	4.02%	2.78%

** Does not include increases in district contribution for health and welfare benefits*

*** In 2004-05, the district experienced declining enrollments. If the district does not recover the enrollment, base funding will be reduced in 2005-06.*

   - **Did the district conduct a presettlement analysis identifying an ongoing revenue source to support the agreement?** ***Yes***
     The district evaluates new, ongoing revenue to support ongoing costs.

   - **Did the district correctly identify the related costs?** ***Yes***
     The district uses an appropriate methodology for cost projections.

- **Did the district address budget reductions necessary to sustain the total compensation increase? *No***
  The district did not address budget reductions from the standpoint of recognizing that certain ongoing costs in addition to compensation increases need to be funded, such as post-employment health and welfare costs and Workers' Compensation increases.

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

- **Is the district ensuring it is not using onetime funds to pay for permanent staff or other ongoing expenses? *Yes***
  The salaries and benefits of regular staff are currently safely within continuing funding sources. Funding for adjunct and overload staffing, which should also be considered as these costs are necessary for sustaining revenue, are also currently within continued funding sources.

- **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%)? *No***
  The district is below the statewide average of 83.5% for 2004-05. <u>However, the average of 79.2% for small, rural districts is lower than the statewide average.</u> Hartnell, which is a small, rural district, was at 73.8%. For 2002-03 and 2003-04 the statewide averages were again at 79.2% and 79.4%. Hartnell, a small, rural district, was at 73% in 2002-03 and 73.8% in 2003-04.

  While Hartnell's overall costs for salaries and benefits are below the statewide averages, the college has contracts with other agencies for services that include salaries and benefits. The three agencies with whom Hartnell College contracts are the South Bay Regional Public Safety Training Consortium, North Monterey County Unified School District, and Western Stage. Total costs for the salary and benefits in these contracts were $1,475,854 in 2002-03; $1,600,353 for 2003-04; and $1,466,846 for 2004-05. Although this information is not used in the calculations for the percentage of salaries and benefits in statewide average comparisons, it does show that additional dollars have been used for personnel costs. Instruction of these courses would otherwise be performed by the Hartnell staff if the contracts for outside services did not exist.

8. **Internal Controls - Is this area acceptable? *Yes***
- **Does the district have adequate internal controls to ensure the integrity of the general ledger?**
  The district Controller is responsible for monitoring the general ledger accounts.

- **Does the district have adequate internal controls to safeguard the district's assets?** ***Yes***
  The district has staff members in the business office with levels of oversight that provide at least two separate reviews of the district's budget in addition to the budget committee activities related to block grant funds.

9. Management Information Systems - Is this area acceptable? Yes

This area is acceptable with the exception of not having implemented certain components such as position control and enrollment management.

- **Is the district data accurate and timely?** ***Yes***
  The data is up to date based on timely posting, but budget revisions could be completed in a more timely manner.
- **Are the county and state reports filed in a timely manner?** ***Undetermined by the team***
- **Are key fiscal reports readily available and understandable?** ***Yes***
  The FCMAT study team was given information from the financial system that was understandable and was provided in a timely manner.

10. Position Control – Is this area acceptable? ***No.***

The current system for tracking regular positions is an Excel spreadsheet. The human resources (HR) system does not contain position information that can then be used for authorizations, tracking, and projecting. The district attempted to implement the position control module of its administrative system, Datatel, but was dissatisfied with the results. It is recommended that the position control module be implemented to facilitate tracking, authorizations, and projections.

- **Is position control integrated with payroll?** ***No***.
- **Does the district control unauthorized hiring?** ***Yes, manually.***
- **Does the district have controls over part-time academic staff hiring?** ***No***
  As relayed in the study team's interview with the Director of Human Resources, late notification of hires occurs often especially with adjunct faculty. There is no line-item control on staffing costs. The district should utilize FTE control for adjunct and not-in-contract staff (regular faculty overload), at least to ensure the expenditures are within the staffing level required for the growth projections.

11. Budget Monitoring - Is this area acceptable? ***Yes***

- **Is there sufficient consideration to the budget, related to long-term bargaining agreements? Yes and No**

Yes, in terms of salary and benefit increases. However, the district has not appropriated funds for the retiree health and welfare costs for the current year (pay-as-you-go) or any funding toward the unfunded liability related to this benefit.

- **Are budget revisions completed in a timely manner? *No***
  Based on the recognition of material events that will affect the bottom line for the 2005-06 year, it appears that budget revisions for these items have not yet been completed.

- **Does the district openly discuss the impact of budget revisions at the board level? *Yes***
  Monthly financial statements are prepared for the board.

- **Are budget revisions made or confirmed by the board in a timely manner after the collective bargaining agreements are ratified? *Undetermined by the team***

- **Has the district's long-term debt decreased from the prior fiscal year? *Yes***
  The district holds certificates of participation (COPs), general obligation (GO) bonds, and long term leases. The GO bond payments are made from the bond interest and redemption fund with local tax collections. Payments for the COPs are made by the COP debt service fund. Capital leases are paid from the general fund. Overall, the level of long- term debt decreased from a July 1, 2004 balance of $37,799,328 to a June 30, 2005 balance of $36,452,803.

- **Has the district identified the repayment sources for the long-term debt? *Yes***
  Noted in the prior response.

- **Does the district compile annualized revenue and expenditure projections throughout the year? *Undetermined by the team***

12. Retiree Health Benefits - Is this area acceptable? *Yes*

- **Has the district completed an actuarial calculation to determine the unfunded liability? *Yes***
  The district's most current actuarial calculation is dated February 16, 1998. At that time, the unfunded future liability was $3,353,361. The district needs to begin planning to have an updated actuarial study performed in anticipation of GASB 45 requirements.

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

Currently the district treats this liability on a pay-as-you-go basis from the general fund. However, $1,114,991 has been set aside towards funding this liability with no additional plan to annually fund future amounts. The district's post-retirement benefits plan is structured such that the district's exposure is fairly limited relative to many other districts.

13. Leadership/Stability - Is this area acceptable? ***Yes***

Has the district experienced recent turnover in its management team including the Chief Executive Officer, Chief Business Officer, and Board of Trustees? ***No***

The senior management team has been together for several years. The study team did not review the tenure of the current board, but understands that all have been elected within the past ten years.

14. District Liability – Is this area acceptable? ***Yes***

- **Has the district performed the proper legal analysis regarding potential lawsuits that may require the district to maintain increased reserve levels?** ***Yes***
  Per the audited financial statements, it is the opinion of management and legal counsel that there is no material adverse effect on the financial position of the district as of June 30, 2005 related to pending litigation.

- **Has the district set up contingent liabilities for anticipated settlements, legal fees, etc?** ***No***
  Based on the budget information provided to the team, no contingent liability funds are included in the general fund budget.

15. Reporting – Is this area acceptable? ***Yes***

- **Has the district filed the annual audit report with the System Office on a timely basis?** ***Yes***
  The district provided all reports. Based on the dates of the annual financial audit report, they are filed in a timely manner.

- **Has the district taken appropriate actions to address material findings cited in their annual audit report?** ***Yes***
  Based on the annual financial report, the district does address findings.

- **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***
  The reports were provided to the study team for review. The CCFS-311 reporting reconciles to the annual financial report (supplemental schedule) as well as the System Office data extracted from the CCFS-311 and the district's budget document.

Fiscal Management Self-Assessment Summary			
Total the number of areas that were not acceptable ("No" responses). Use the key below to determine the level of risk to the district's fiscal health. **Based on the information provided above, the district falls into the moderate range category with four "No" responses.**			
0 – 3	**4 – 6**	**7 – 10**	**11 – 15**
Low	**Moderate**	**High**	**Extremely High**

The district's Fiscal Management Assessment conducted by FCMAT indicates a total score of four "No" responses, placing the district in the moderate range of risk. The assessment should be conducted each year to determine whether the district score has changed.

The assessment shows that the level of ongoing deficit spending has contributed to the decline in available reserves. Without making positive changes that will result in a balanced annual budget, the district reserves will fall below the required 5% reserve level, potentially requiring intervention by the System Office.

The activities of the Enrollment Management Committee, along with collaborative goals and objectives among the business office, Admission and Records, and Office of Instruction, may result in renewed student interest and further instructional classes offered to reverse the current trend of declining FTES.

Appendices

A. Fiscal Data

B. Study Agreement

Hartnell CCD
Budget Projections
2006-07 and 2007-08

2005-06 Adopted Budget Ending Fund Balance	2,431,775
Workers' Compensation tail claims due	(300,000)
Additional cost of Retiree Benefits premiums	(455,825)
Write-off of previous year's Deferred Revenue	813,774
One-time funds provided by the System Office at P-	167,806
2005-06 Revised Projected Ending Fund Balance	**2,657,530**

Hartnell CCD
Apportionment Assumptions
2006-2007 and 2007-2008

	2006-2007	2007-2008
	2% Growth	**2% Growth**
	5.18% COLA	**3.4% COLA**
Apportionment Base Calculation:		
05/06 P-1 Base Revenue	29,084,355	31,548,773
Equalization - (recommended by BOG)	534,698	-
COLA	1,506,570	1,072,658
Growth	581,687	630,975
06/07 Base	31,707,310	33,252,407
Deficit Factor at .5%	(158,537)	(166,262)
Adjusted 06/07 Base	**31,548,773**	**33,086,145**
Growth % Calculation:		
FTES Estimated Base	6,408.73	6,627.85
FTES 06/07 amount needed to get to 05/06 Base	89.16	
FTES 05/06 Base	6,497.89	6,627.85
FTES Targets for 06/07	6,627.85	6,760.40
Increase in FTES	219.12	132.56
% Increase in FTES	**3.42%**	**2.00%**
Lottery ($141 per FTES)		
Unrestricted ($118.50 per FTES)	785,400	801,108
Restricted ($22.50 per FTES)	149,127	152,109
	934,527	953,217

Hartnell Community College District

Partnership for Excellence (PFE) Funding 2001-02 to 2005-06

	PFE Revenues	Difference from PY	% Change	Exhibit C Base + COLA	%
2001-02	$ 1,844,064				
2002-03	1,616,685	-227,379	-12.3%	27,502,000	-0.83%
2003-04	1,383,048	-233,637	-14.5%	27,494,151	-0.85%
2004-05	1,184,316	-198,732	-14.4%	28,327,388	-0.70%
2005-06	1,383,048	198,732	16.8%		
			-24.4%		

	COLA	Growth	PFE	Total	SSI
2004-05	2.41%	0.00%	-0.80%	1.61%	3.00%
2003-04	0.00%	1.31%	-0.90%	0.41%	1.31%
2002-03	2.00%	2.72%	-0.70%	4.02%	2.78%
				6.04%	7.09%

Hartnell CCD
Trend Analysis for General Fund (Unrestricted Only)
Fiscal Years Ending

	Projected Budget		Projected Budget		Budget		Actuals							
	June 30, 2008		June 30, 2007		June 30, 2006		June 30, 2005		June 30, 2004		June 30, 2003		June 30, 2002	
Revenues:														
Federal	-	0.00%	-	0.00%	-	0.00%	10,710	0.03%	27,759	0.09%	1,600	0.01%	15,704	0.05%
State	18,089,340	50.87%	16,578,589	48.75%	15,021,487	46.21%	13,912,035	42.39%	14,091,977	44.39%	15,444,338	48.73%	15,891,141	51.74%
Local	17,469,208	49.13%	17,426,574	51.25%	17,484,775	53.79%	18,896,873	57.58%	17,627,657	55.52%	16,247,461	51.26%	14,805,225	48.21%
Total Revenues	35,558,549	100.00%	34,005,163	100.00%	32,506,262	100.00%	32,819,618	100.00%	31,747,393	100.00%	31,693,399	100.00%	30,712,070	100.00%
Expenditures:														
Academic Salaries	12,825,111	34.87%	12,696,379	35.47%	12,567,648	36.65%	11,848,344	35.95%	11,516,468	37.69%	11,800,430	41.30%	12,005,741	40.52%
Classified Salaries	7,876,302	21.42%	7,361,736	20.57%	6,847,170	19.97%	6,648,636	20.18%	6,419,431	21.01%	6,204,304	21.71%	6,386,756	21.55%
Employee Benefits	7,855,474	21.36%	7,715,707	21.55%	6,948,626	20.26%	6,940,560	21.06%	5,703,835	18.67%	4,929,380	17.25%	4,528,518	15.28%
Supplies & Materials	442,626	1.20%	426,918	1.19%	541,518	1.58%	463,396	1.41%	427,215	1.40%	525,634	1.84%	580,903	1.96%
Other Operating Expenses	7,426,289	20.19%	7,242,379	20.23%	7,036,356	20.52%	6,541,935	19.85%	5,969,310	19.53%	4,867,147	17.03%	5,705,895	19.26%
Capital Outlay	352,321	0.96%	352,321	0.98%	352,321	1.03%	511,767	1.55%	521,865	1.71%	245,944	0.86%	422,675	1.43%
Total Expenditures	36,778,123	100.00%	35,795,440	100.00%	34,293,639	100.00%	32,954,638	100.00%	30,558,124	100.00%	28,572,839	100.00%	29,630,488	100.00%
Excess/(Deficiency) of Revenues over Expenditures	**(1,219,574)**		**(1,790,277)**		**(1,787,377)**		**(135,020)**		**1,189,269**		**3,120,560**		**1,081,582**	
Other Financing Sources	100,000		100,000		-		-		100,000		100,000		-	
Other Financing Uses	(71,042)		(71,042)		(71,042)		(1,349,277)		(1,072,477)		(291,511)		(822,663)	
Net Increase/(Decrease) in Fund Balance	**(1,190,616)**		**(1,761,319)**		**(1,858,419)**		**(1,484,297)**		**216,792**		**2,929,049**		**258,919**	
Beginning Fund Balance	896,211		2,657,530		4,290,194		5,774,491		5,557,699		2,628,650		2,369,731	
Ending Fund Balance	**(294,405)**	-0.80%	**896,211**	2.50%	**2,431,775**	7.09%	**4,290,194**	13.02%	**5,774,491**	18.90%	**5,557,699**	19.45%	**2,628,650**	8.87%
FTES	**6,760.40**		**6,627.85**		**6,408.73**		**6,497.89**		**7,038.38**		**7,178.59**		**6,752.57**	

Amounts taken from CCFS-311 reports

MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
March 14, 2006

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and Hartnell College, hereinafter referred to as the College, mutually agree as follows:

1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts, county offices of education, charter schools, and community colleges upon request. The College has requested that the Team provide for the assignment of professionals to study specific aspects of the Hartnell College operations, based on the provisions of Education Code section 84041. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, charter schools, community colleges, or private contractors. All work shall be performed in accordance with the terms and conditions of this Agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are to:

1) Assist the College in updating the procedures used to forecast annual F.T.E.S. used for the purpose of budgeting for revenue, expenditure, and staffing allocations.
2) Conduct an analysis of the College's annual budget and prepare a multi year financial forecast for the 2006-07 and 2007-08 years.
3) Complete a Fiscal Health Analysis of the College using the California Community Colleges Sound Fiscal Management Self-Assessment Checklist to determine the College's current level of financial risk.

B. Services and Products to be Provided

1) Orientation Meeting - The Team will conduct an orientation session at the College to brief College management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.

2) On-site Review - The Team will conduct an on-site review at the College office and at College sites if necessary.

3) Progress Reports - The Team will hold an exit meeting at the conclusion of the on-site review to inform the College of significant findings and recommendations to that point.

4) Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.

5) Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the College administration for review and comment.

6) Final Report - Sufficient copies of the final study report will be delivered to the College following completion of the review.

3. PROJECT PERSONNEL

The study team will be supervised by Barbara Dean, Deputy Administrative Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

A. Ann Marie Gabel, FCMAT Community College Consultant
B. Theresa Matista, FCMAT Community College Consultant

Other equally qualified consultants will be substituted in the event one of the above noted individuals is unable to participate in the study.

4. PROJECT COSTS

The cost for studies requested pursuant to E.C. 42127.8(d)(1) shall be:

A. $400.00 per day for each FCMAT staff Member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent consultants will be billed at the actual daily rate based on the provisions of E.C. 84041. Based on the provisions included in item 2A, estimated cost is $10,000. The college will be billed at actual costs.

B. All out-of-pocket expenses, including travel, meals, lodging, etc.

Payments for FCMAT services are payable to Kern County Superintendent of Schools-Administrative Agent.

5. RESPONSIBILITIES OF THE COLLEGE

A. The College will provide office and conference room space while on-site reviews are in progress.
B. The College will provide the following (if requested):

1) A map of the local area
2) Existing policies, regulations and prior reports addressing the study request
3) Current organizational charts
4) Current and four (4) prior year's audit reports
5) Any documents requested on a supplemental listing

C. The College Administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with College pupils. The College shall take appropriate steps to comply with statutory requirements regarding student contact.

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for key study milestones:

Orientation:	April 11, 2006
Staff Interviews:	April 11-13. 2006
Exit Interviews:	April 13, 2006
Preliminary Report Submitted	May 26, 2006
Final Report Submitted	To be determined
Board Presentation	To be determined

7. CONTACT PERSON

Please print name of contact person: Larry Carrier, Vice President

Telephone (831) 755-6995 FAX (831) 755-6751

Internet Address lcarrier@hartnell.cc.ca.us

Edward Valeau, Superintendent/President Date
Hartnell College

Barbara Dean, Deputy Administrative Officer Date
Fiscal Crisis and Management Assistance Team