FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

April 4, 2016

Mario Rodriguez, Vice Chancellor (Interim)
California Community Colleges Chancellor's Office
1102 Q Street, Suite 4550
Sacramento, CA 95811

Dear Mr. Rodriguez,

In November 2014 the California Community Colleges Chancellor's Office (CCCCO) and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to conduct a review of the City College of San Francisco's (CCSF) revenues in accordance with Education Code (EC) Section 84750.6. Senate Bill 860, which was approved by the Governor June 20, 2014, amended EC Section 84750.6, providing special stabilization funding if CCSF meets various enrollment decrease metrics as well as if it meets or exceeds five specific benchmarks.

Senate Bill 860 specifically states that additional funding will be provided if CCSF's number of full-time equivalent students (FTES) decreases from the number in the 2012-13 fiscal year and if FCMAT makes a finding after April 1, 2016 that CCSF is meeting or exceeding specific benchmarks. The revenues that shall be provided by the board of governors are as follows:

(a) 2014-15 fiscal year: an amount not less than what CCSF would receive if the level of attendance of FTES was the same as in the 2012-13 fiscal year.

(b) 2015-16 fiscal year: an amount not less than 95% of the total amount that CCSF would receive if the level of attendance of FTES was the same as in the 2012-13 fiscal year.

(c) 2016-17 fiscal year: an amount not less than 90% of the total amount that CCSF would receive if the level of attendance of FTES was the same as in the 2012-13 fiscal year.

The five specific benchmarks that FCMAT must make a finding after April 1, 2016 that the district is meeting or exceeding include:

1. Implementing effective fiscal controls and systems.
2. Adopting prudent fiscal policies and practices as documented by an analysis of the multiyear financial projections of no less than three fiscal years commencing with the 2016-17 fiscal year.
3. Applying resources in accordance with a budget plan approved by the special trustee.

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4. Maintaining appropriate fiscal reserves.
5. Adopting a plan to address long-term liabilities including, but not necessarily limited to, other postemployment benefits.

FCMAT contracted with Cambridge West Partnership, LLC to conduct the review. This letter is a result of interviews, document review and data analysis related to each of the benchmarks that the district is expected to meet or exceed. Each of the five specific benchmarks, and the district's progress in meeting or exceeding each, will be addressed separately.

Analysis

1. **The CCSF implements effective fiscal controls and systems:** The district meets this benchmark.

   Vavrinek, Trine, Day & Co., LLP (VTD) performed the June 30, 2015 annual independent financial audit, which concluded with the issuance of an unmodified audit opinion for the financial statements, unmodified audit opinion for compliance with federal awards, and a qualified audit opinion for compliance with state awards. Of the six 2015 audit findings, three were repeated from the 2014 audit[1], three were categorized as a material weakness and three were categorized as a significant deficiency.

   Even with the qualified audit opinion for compliance with state awards, FCMAT is able to consider this benchmark met for several reasons, including:

   1. None of the audit findings were due to a control issue that resulted in a negative financial impact on students, faculty, staff, financial institutions, the public, the district or the state of California.
   2. None of the audit findings were due to inappropriate cash handling, warrant stock security, unauthorized or undocumented warrants, unauthorized or undocumented purchases or contracts, or other situations that could imply the absence of appropriate control systems, fiscal malfeasance or fraud.
   3. All of the audit findings were attributed to clerical mistakes based on lack of staff, inadequate staff training, and/or inexperienced staff. In other words, the audit findings are due to workload, not fidelity or control systems issues.

   The district's Management's Response and Corrective Action Plan for Finding 2015-001 is similar to the response to all of the findings:

   > *As of December 2015 the District is in the process (of) filling a significant number of vacant positions within the Finance Office. With the filling of these positions the District will be equipped and sufficiently staffed to ensure adequate time is spent in reviewing and reconciling all accounts during year-end close, and before preparation of the CCFS-311 to ensure that accurate, timely information is reported to users of the financial information. Additionally, the District will ensure staff and responsible management is properly trained on fiscal year-end closing procedures.*

1 AFR-2015; p. 95 – 100.

The unique civil service system that combines the classifications of the city/county of San Francisco and the district is a significant mitigating factor that makes it virtually impossible for the district to avoid audit findings concerning fiscal procedures and reporting related to staffing and training issues. The civil service system, in conjunction with a more robust city/county salary schedule, leads to great fluidity of the classified fiscal staff between the city/county and the district, causing additional uncertainty and instability in staffing. Some examples/implications include:

1. When the district has a classified staff opening, despite how specialized the position responsibilities are (for example, attendance accounting, preparation of the CCFS-311 or Gann Limit), any city/county employee who meets the entrance qualifications can move ("bump") into that position.
2. Similarly, where there is a city/county classified staff opening, district employees can move into the position (where there is usually a higher salary schedule) if they meet the minimum qualifications of the city/county position.
3. The result of being able to easily move between city/county and district positions is the additional uncertainty of how long an employee will remain in a position after being placed. Although there is uncertainty in any district of how long an employee might remain in a position after gaining hands-on experience to adequately perform specialized tasks, the chances of movement even after a short length of time are higher in a civil service system due to the ease of moving between agencies.
4. An example of such movement is the reason for an audit finding in the last two annual audits, specifically the audit findings related to the Gann Limit report not being filed accurately. After the 2014 finding the position was refilled and the employee trained, but then the employee transferred to the city/county and the district did not have the opportunity to train a replacement prior to the Gann Limit report needing to be filed for the subsequent year.

In addition to the above examples, if an employee were to leave the district or if a potential employee were to consider working at the district versus working for another employer, it is probable that they would be tempted to work at a job in the East Bay due to the increasingly high cost of living and commuting challenges associated with living and working in San Francisco.

The district has taken significant steps to address the staffing and training issues identified in the audit findings. As of this letter the district has filled the positions of vice chancellor of finance and administration and associate vice chancellor of finance and administration. Both employees are certified public accountants (CPAs), and the associate vice chancellor actually came to the district from the district's external auditing firm. In addition, two accounting staff members have been hired and the interview process is under way to select two accounting supervisors.

The district has been unable to address one critical opening in the fiscal operations, which is the internal auditor position. The district has unsuccessfully attempted to fill this position five times. Alternatively, the district reached an agreement with the city and county of San Francisco's auditor's division to perform the internal audit function.[2,3]

2 Website of the City & County internal auditor's office: http://www.ccsf.edu/en/about-city-college/administration/vcfa/internal-audits.html

3 SharePoint: Engagement letter with the City and County of San Francisco, Office of the Controller's City Service, Auditor Division

Two other indications that the district's fiscal controls have improved and that the benchmark is being met are:

1. The cash position of the district has dramatically improved. Although the district has a $15 million line of credit available, the parcel tax proceeds and the supplemental stabilization funding have allowed the district to avoid any cash flow shortages.
2. The compensated absences liability has been reduced by approximately $1.5 million by enforcing the terms of the collective bargaining agreement.

The board of trustees does have a role, and recognizes its role, in ensuring that fiscal controls and systems are implemented by adopting and implementing board policies 8.01, 8.01a, 8.02, 8.03, 8.06, 8.06a, and 8.12.[4]

As required by BP 8.12, beginning December 2015 the vice chancellor of finance and administration has presented monthly financial status reports to the board. That report includes budget-to-actuals, comparisons to prior year, and actual expenditure "burn rate." The BP/AP also requires posting of the monthly report on the district's budget Web page, http://www.ccsf.edu/en/about-city-college/administration/vcfa/Budget0/Board.html.

The board of trustees' minutes for December 2015, January 2016 and February 2016 verify that the reports were presented:
http://www.ccsf.edu/en/about-city-college/board-of-trustees/bot_meetings2015.html

FCMAT includes enrollment management and position control as components of the effective fiscal controls and systems benchmark since both have major impact on the district's fiscal condition. For enrollment management, interviews indicated that the business and chief instructional vice chancellors meet on a regular, usually weekly basis to monitor the FTES/FTEF productivity by site, utilizing reports from the Argos system. Although the district has been unable to address the low productivity and high cost of the schedule on a per-FTES basis, the conversations and systems are in place to move forward on those issues. With position control, interviews with district leadership and FCMAT's document review demonstrate that a comprehensive position control system has been initiated and is better utilized than in the past.[5] While the position control systems[6] and procedures can still use improvements as CCSF's complex processes exceed the system's capability, the system is better utilized to more accurately identify open positions so that a decision can be made whether they should remain open or should be closed to better project a more realistic ending fund balance. Additionally, the chancellor must approve any requests to fill positions, with a prioritization system of filling vacant faculty positions based on program review[7].

The district's recovery and ability to make progress is hampered by the district's civil service environment, and the potential to make changes in this area should be investigated. Even so, FCMAT considers the district as having met the benchmark of effective fiscal controls and systems being implemented because none of the audit findings were due to a control issue that resulted in a negative financial impact; there were no situations that implied the absence of appropriate control systems, fiscal malfeasance or fraud; and audit findings are due to workload, not fidelity or control systems issues.

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4 SharePoint and the district's website:
http://www.ccsf.edu/en/about-city-college/board-of-trustees/policies---administrative-procedures.html

5 SharePoint: AP 8.01A; 2-03 2016 position control.xlsx

6 SharePoint: Monthly Position Control Report

7 SharePoint: *2016-17 Budget Development Guidance* memo dated 2-12-16 from Ron Gerhard, p.7, item 22.

2. **The CCSF has adopted prudent fiscal policies and practices, as documented by an analysis of the multiyear financial projections of no less than three fiscal years commencing with the 2016-17 fiscal year:** The district meets this benchmark. It must be highlighted, though, that the district faces significant fiscal consequences that will challenge its ability to implement and maintain those prudent fiscal policies and procedures, which puts the fiscal solvency of the district at risk.

   Prudent fiscal policies are documented by adopted board policies BP 8.01, BP 8.02, BP 8.03, BP 8.05, and BP 8.12, and by board administrative procedures AP 8.01, AP 8.01A, AP 8.03, and AP 8.12.[8] In addition, the vice chancellor of finance and administration has produced multi-scenario, multiyear financial projections[9] that have been used in developing the 2015-16 adopted budget. Those multiyear scenarios have been updated and are being used in developing the 2016-17 tentative budget.

   The February 12, 2016 *2016-17 Budget Development Guidance* memo[10] from the vice chancellor of finance and administration to all other vice chancellors, associate vice chancellors, deans and chairs documents the integration of prudent fiscal policies and practices in the 2016-17 budget development process. That memo also documents some of the formidable challenges that are on the horizon for the district. These challenges include:

   1. Parcel Tax: The $72 per parcel tax sunsets in 2020-21, and generates approximately 7.2%, or $15.2 million[11], of the 2015-16 unrestricted general fund revenue. The district has indicated that it will be polling the voters to assess the feasibility of placing a measure on the November 2016 ballot to extend the tax. Given the history of voter support for local taxes, the district administration is cautiously optimistic that voter support will continue with the extension of the parcel tax. However, efforts to extend the parcel tax may be challenged by the potential negative effects of either a threatened faculty strike or a board-approved salary increase that is seen as excessive by the voters.

   2. Educational Protection Account (EPA): The EPA provides local educational agencies (LEAs) with general-purpose state aid funding pursuant to Proposition 30, the Schools and Local Public Safety Protection Act of 2012, which was passed by California voters in November 2012 and went into effect in January 2013. It raised the state's general sales tax by a quarter of a cent for four years and the income taxes for people who make at least $250,000 by up to 3 percentage points for seven years. The 2015-16 CCSF Adopted Budget includes $25.5 million[12] of EPA revenue in the unrestricted general fund. The two Proposition 30 revenue sources begin to sunset in 2017. Although in theory the loss of the Proposition 30 EPA revenue sources should not directly impact the district's total computational revenue since the loss should be backfilled by state aid funding, the loss of that much revenue could negatively impact the California community college districts if the sunsetting is in conjunction with the

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8 SharePoint and the district's website: http://www.ccsf.edu/en/about-city-college/board-of-trustees/policies---administrative-procedures.html.

9 SharePoint: three multiyear projection Excel workbooks are posted.

10 SharePoint: February 12, 2016 *2016-17 Budget Development Guidance* memo

11 Adopted Budget 2015-2016; date submitted: September 10, 2015; P. 12

12 Adopted Budget 2015-2016; date submitted: September 10, 2015; P. 12

projected economic downturn as there would be less state aid available overall. Less state aid could mean that restoration funds would not be available to fully restore lost CCSF FTES after 2016-17 when special stability funding terminates, making it much more difficult for the CCSF advocates to obtain an extension of that special stability funding.

3. Stabilization funding: Education Code Section 84750.6 allows for additional funding for CCSF due to potential loss of accreditation status. The funding for the 2015-16 and 2016-17 fiscal years shall be provided *only if* FCMAT makes a finding after April 1, 2016 that CCSF is meeting or exceeding five specific benchmarks. Although the FCMAT report has not been finalized, submitted and accepted by the California Community Colleges Chancellor's Office, the stabilization funding is included in both the 2015-16 and 2016-17 district's projected budgets.[13] The 2016-17 adopted budget includes approximately $26.5 million of stability funding.[14]

4. Difficulty and timing of restoring FTES: As stated in the CCSF chancellor's transmittal letter to the February 15, 2016 adopted budget:[15]

   Restoration of our enrollment continues to be our biggest challenge. Over the last few academic years our enrollments have dropped by over 25%, to levels not seen in over 13 years. We are continuing to monitor and evaluate the marketing and enrollment processes that have been put in place to positively impact these numbers. Our FTES for 2014 was 23,631. The FTES goal for 2015-16 is approximately 23,700, a 0.3% increase from the prior year.

   Several factors contribute to the slow enrollment restoration, including the economic recovery and low unemployment rate, as California community college enrollments trends are highly correlated to the unemployment rate trends. When unemployment is high, community college enrollments increase and when the unemployment rate drops, community college enrollments drop. Another factor in the slow enrollment restoration is due to the FTES demographics of the lost students and the concern over the viability of transfer credits. Interviews revealed to FCMAT that approximately 70% of the lost students were credit and approximately 80% of those credit students were transfer students at the Ocean campus. Transfer students would be among the most concerned about the district's accreditation issues because they worry that the status of their transfer credits from CCSF may be at risk. Additionally, those students are concerned that financial aid will disappear along with the transfer credits. So, it becomes increasingly difficult to attract potential students interested in transferring to a four-year institution until there is no longer any doubt about the accreditation status of CCSF. Even when full restoration occurs and all accreditation concerns are eliminated, it will take approximately three to four years for these students to fulfill the transfer requirements. The district's opinion is that it could take more than 10 years to restore FTES back to the 30,000 level.

13 Adopted Budget 2015-2016; date submitted: September 10, 2015; P. 11
14 Adopted Budget 2015-2016; date submitted: September 10, 2015; Chancellor's transmittal letter, page 2.
15 Adopted Budget 2015-2016; date submitted: September 10, 2015; Chancellor's transmittal letter, page 2.

5. Changing demographics: The changing demographics of the district could also be a major barrier to a significant restoration. The city is becoming increasingly unaffordable for many of the demographic groups that have traditionally been the majority of the CCSF's student population. Additionally, unlike the traditional characteristics of most CCSF students, the demographics of those moving into the city tend to be highly educated and employed in higher-paying and time-intensive jobs.
6. Class Reductions: There are challenges to adequately reduce the size and cost of the class schedule to appropriately reflect the 25% enrollment decrease. Factors contributing to the challenges include:
    a. Ten campuses/centers, with only about a quarter of the FTES coming from nine of those locations. Purely in economic terms, the locations should be condensed to allow for the more economical consolidation of classes; however, both in terms of serving the district's diverse demographics and the political realities of San Francisco, coupled with the revenues the city and county of San Francisco provide to the college and the state revenues the college receives for the centers, it is highly unlikely the centers will be closed. Even so, consolidation should still be considered and discussed.
    b. The high ratio of full-time to part-time faculty. CCSF has the third highest percentage of full-time faculty in the California community college system (73.24%; average is 56.14%).[16] This ratio poses at least two challenges when it comes to consolidating and condensing the academic schedule. First, full-time faculty members get paid a base salary no matter how many classes they teach. Eliminating one or two classes from the load of a full-time faculty member only allows the district to realize a financial benefit when the lost portion of the load can be reassigned to another teaching assignment. This has not been the practice of the college in the past, but is in the plans beginning in fall 2016. This leads to the second challenge related to the high FT/PT faculty ratio – the portion of the load that is now non-teaching moves from the qualifying to the non-qualifying side of the 50% Law calculation, and the district is already barely over the 50% threshold. Education Code Section 84362 requires "there shall be expended each fiscal year for payment of salaries of classroom instructors by a community college district, 50 percent of the district's current expense of education."
    c. The one opportunity that remains for consolidating the schedule of classes is the district's relatively low faculty productivity. In terms of the systemwide weekly student contact hours (WSCH)/FTEF productivity goal of 525, CCSF is very low at approximately 333 to 338 for the fall and spring terms.[17] If the districtwide productivity rose to 525, the district could teach about 40% more FTES at no additional instructional cost. Although a 40% increase is overly optimistic, the low CCSF faculty productivity offers an opportunity for the district to significantly reduce the cost of the instructional schedule commensurate with the reduction of FTES.

16 SharePoint: Excel: Fall_2015_FTEF_Final_Reports
17 Argo: Section-Level Data. Dashboard, run date 2-7-2016; FTES-FTEF Targets 02-7-2016 – FY 2015-16.

7. Employee Compensation: There is inevitable bargaining table pressure to enhance compensation, decreasing fund balances. Given the funding uncertainties discussed elsewhere in this letter (e.g., parcel tax extension, EPA sunsetting, enhanced stabilization), as well as attempting to restore FTES and reduce overall costs (including those associated with the academic schedule), it will be critical for the district to maximize its available unrestricted general fund balance while those funding sources are still in place. Increases in fund balance to cover funding uncertainties is critical, but often collective bargaining representatives view any such increases, especially those above the minimum level (5%) as available for enhanced employee compensation.

   The AFT 2121 strike vote memo of February 24, 2016[18] illustrates the intensity of the pressure the board will be under to compromise prudent fiscal principles to ignore the deficit spending reflected in the multiyear financial projections. Without the continued presence of a third-party special trustee with the authority to stop expenditures that would decrease reserves, increasing fund balances is at risk based on the historic influence of the collective bargaining units, and the understandable desire of board members to maximize the well being of the district's employees.

8. Lifetime benefits: The district is one of the few California districts to still provide lifetime health and welfare benefits for both full-time permanent employees and hourly faculty (after a minimum number of consecutive assignments). The provision of the lifetime benefits creates at least three major fiscal challenges to the district:

   a. Increases the annual cost of providing benefits.

   b. Significantly increases the required level of the OPEB irrevocable trust.

   c. Makes it emotionally more difficult to reduce hourly instructional assignments when that reduction could eliminate individuals' benefits.

   The district has met the benchmark of adopting prudent fiscal policies and practices based on an analysis of a six-year multiyear financial projection, although there are significant fiscal consequences on the horizon that will challenge the district's ability to implement and maintain those prudent fiscal policies and procedures and thus protect the fiscal solvency of the district in the future.

3. **The CCSF is applying resources in accordance with a budget plan approved by the special trustee:** This district meets this benchmark.

   The special trustee confirmed that he approved the 2015-16 proposed adopted budget and informed the board of that budget in a study session[19]. A review of the three most recent monthly budget status reports posted on the budget Web page confirm that the district is applying resources in accordance with the 2015-16 adopted budget as approved by the special trustee and the board of trustees. In addition, a review of board policies and procedures reveals the board's commitment to adhering to a fiscally responsible budget, as well as budget monitoring and control systems.

   This benchmark is being met. The special trustee approved the budget plan in the 2015-16 adopted budget, and resources are being allocated accordingly.

18 *AFT 2121 Calls for Strike Vote;* http://www.aft2121.org/2016/02/aft-2121-calls-for-strike-vote/#more-5934.

19 Telephone interview with Dr. Lease, 2/22/16.

4. **The CCSF is maintaining appropriate fiscal reserves:** The district meets this standard.

   The 2015-16 adopted budget's cover letter to the board[20] indicates a contingency reserve of $23,453,763 (12% of budgeted expenditures) and $12,653,472 of unallocated reserves (6.5% of budgeted expenditures) for a total of $36,107,235 (18.5% of budgeted expenditures) on page one of the summary chart. That $36.1 million unrestricted balance compares to a potential loss of over $41 million if both the parcel tax and the special stability funding are not renewed. So, the district does not currently have adequate reserves to completely cover one year of these two possible, but not inevitable, events. The six-year budget plan does project a reduction in spending to match annual revenues in the 2020-21 fiscal year, which addresses the assumption that stability funding will not continue beyond 2016-17. In addition, the district plans to place the renewal of the local parcel tax on the ballot no later than 2018 so that plans can be made to adjust the loss of these funds should the local parcel tax not be renewed.

   The January 2016 budget status report to the board, which is posted on the district's budget Web page,[21] indicates that the current expenditure trends would produce a larger reserve than projected in either the adopted budget or the eight-year plan. In addition, the 2015-16 311Q report for the quarter ending December 31, 2015[22] reports an 18.17% projected ending balance for the unrestricted general fund.

   Although there is no minimum percentage reserve requirement for California community college districts, the CCCCO and the Accrediting Commission for Community and Junior Colleges (ACCJC) consider 5% of actual expenses to be a minimally acceptable reserve. Based on that 5% minimum, the 18.5% CCSF reserve may seem high, but as discussed previously, in reality it may be inadequate to address the fiscal issues the district faces.

   The economy and state revenues are currently robust, but based on historical trends, a downturn in the economy is inevitable. In the past, economic downturns have had two major impacts on a California community college district. First, state revenues decrease, sometimes significantly. And conversely, enrollments increase as the unemployment rate increases. The net result has been less overall funding while there is a greater demand for services.

   Other structural challenges facing CCSF include attempting to reduce the cost of its class schedule and making it more congruent with the 25% reduction of revenue-generating FTES. Additionally, administration and the board of trustees recognize the significant barriers to restoring a significant amount of the lost 25% of FTES. The board is managing the pressure to compromise prudent fiscal principles and is not ignoring the messages in the multiyear financial projections in response to the faculty's compensation demands as demonstrated by the distribution of the AFT 2121 strike vote memo of February 24, 2016. There is concern for the parcel tax extension being backed by the voters if a faculty strike occurs or ongoing negative publicity surrounding the accreditation of the college continues. Finally, it is still possible that the ACCJC may find the college continues to be out of compliance with the Standards for Accreditation and terminate the accreditation for the college in response to the Self Evaluation Report and the Visiting Team Report, which will be evaluated, and a decision rendered in January 2017.

   This benchmark of maintaining appropriate fiscal reserves is met based on the district's commitment to aggressively move to reduce the size and cost of the instructional schedule to be more commen-

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20 SharePoint: Adopted Budget 2015-2016; date submitted: September 10, 2015; Chancellor's transmittal letter, page 1.

21 http://www.ccsf.edu/en/about-city-college/administration/vcfa/Budget0/Board.html

22 SharePoint: 2015-16 311Q for the quarter ending December 31, 2015

surate with the 25% reduction in FTES and the current enrollment status described in the *2016-17 Budget Development Guidance* memo[23].

The 2015-16 adopted budget unrestricted general fund balance is not adequate to cushion the district for even one more year if the two major revenue sources are not extended or replaced, no later than fiscal year 2020-21. This is already indicated and documented in the February 12, 2016 *2016-17 Budget Development Guidance* memo[24] that states the 2016-17 budgeted expenditures are expected to be $6 million over budgeted revenues based on current projections. The board has expressed its commitment and willingness to stand behind the need to increase the level of reserves necessary to address the significant economic uncertainties on the horizon. FCMAT recommends the district also commit to reducing the $6 million deficit that is currently projected for 2016-17.

Despite the above factors and the conditions, the district is meeting this benchmark because of the fiscal reserves that have been purposefully increased to provide the district a multiyear window to address the serious challenges of enrollment and schedule of classes. In addition, San Francisco voters have a history of supporting the district well above the level of state-provided support, and both the increase of the CPCD noncredit funding rate to the credit rate and the existence of the sales tax in the special revenue fund should help the district protect an acceptable level of reserves if the schedule of classes can be managed and if the board does not increase compensation beyond that included in the six-year financial plan. So far, the board of trustees has demonstrated its willingness to withstand intense pressure and maintain fiscally responsible collective bargaining positions. The district is in mediation and appears to be moving toward fact-finding. The board hopes to avoid a faculty strike, but so far has been unwilling to accede to faculty demands for large compensation increases that would eventually bankrupt the college.

5. **The CCSF has adopted a plan to address long-term liabilities including, but not necessarily limited to, other postemployment benefits:** The district is meeting this benchmark.

   Major long-term liabilities include:

   a. Other Post-Employment Benefits (OPEB). The district has an unfunded actuarial liability (UAL) as of June 30, 2015 of $176 million, which is 186% of covered payroll.[25] Currently, the Eight Year Plan[26] funds $2.5M per year through 2021. This priority is emphasized in the *2016-17 Budget Guidance* memo's expenditure assumptions, which reflects the $2.5 million being budgeted in 2016-17[27] over and above current year contributions. Collective bargaining agreements now provide for an employee contribution to the OPEB funding. Even though the $2.5 million annual payment will not be adequate to fund the $176 million UAL over 30 years, GASB (Governmental Accounting Standards Board) bulletins do not require full funding. Based on that, CCSF meets the current GASB requirements for OPEB accounting and disclosure.

   b. Facilities infrastructure. The district reflects a deferred maintenance backlog from January 15, 2014 of $193 million.[28] The Eight-Year Plan funds $1.5 million per year through 2021, but

23 SharePoint: *2016-17 Budget Development Guidance* memo from Ron Gerhard, P.2.

24 SharePoint: *2016-17 Budget Development Guidance* memo from Ron Gerhard, P.3.

25 Annual Financial Report, June 30, 2015 (AFR-2015); Vavrinek, Trine, Day & Co., LLP; p. 62.

26 SharePoint: 2012-13 Funding Model for Eight-Year Plan (as adopted by the Board of Trustees); http://www.ccsf.edu/dam/Organizational_Assets/Department/VCFA/CCSF%208%20Year%20Fiscal%20Plan.pdf

27 SharePoint: *2016-17 Budget Development Guidance* memo from Ron Gerhard, P.7, item 19.

28 http://www.ccsf.edu/en/about-city-college/administration/vcfa/Budget0/Board.html; link to Accreditation Evidence, Standard III.B.2, Evidence 8.

the district has been able to budget more than that, $2 million, in both the 2015-16 adopted budget[29] and in 2016-17 per the *2016-17 Budget Guidance* memo's[30] expenditure.[31] In addition to this institutional commitment, the district received approval from the State Chancellor's Office of three large facility projects, for a combined cost of over $80 million that will assist in addressing facility modernization and renovation.

c. Information/technology infrastructure. The district was in the process of estimating the unfunded IT master plan need as of February 28, 2016, but a projection was not yet available to FCMAT. The Eight Year Plan funds $1.5 million per year through 2021; the 2015-16 Adopted Budget includes an additional $500,000 for a total of $2 million.[32] The *2016-17 Budget Guidance* memo's expenditure assumptions also include $2 million in 2016-17.[33] Beginning in fiscal year 2015-16 the district embarked upon a $3.4 million smart classroom conversion project wherein approximately 100 heavily utilized classrooms will be renovated and equipped with smart classroom technology, so additional funds were also set aside for this purpose.

d. Compensated Absences. The outstanding liability had been as high as $3.4 million three years ago. This has been reduced to approximately $2 million and is now being more tightly controlled because the existing contractual language is being enforced.[34]

e. California Public Employees Retirement System (CalPERS) and California State Teachers Retirement Program (CalSTRS). Both CalPERS and CalSTRS have implemented significant increases to the employer contribution rates over the next several years due to the state pension reform act. The CalPERS increase has a very minimal impact on the district because only the police officers are in CalPERS. The vast majority of the district's classified staff are members in the San Francisco Employee Retirement System (SFERS), which had increased its required employer contributions many years ago to achieve funding goals. The district does not have a specific plan to fund these increases; the increased costs will be funded through the normal budget development process using available unrestricted general funds. There are no current plans at the state level to help districts offset the dramatic increase to both CalPERS and CalSTRS. Rather, it is considered a district obligation that is part of budget development. FCMAT recommends that the increases be included as part of multiyear planning rather than budgeted on an annual basis.

f. Self-Insured Workers Compensation Account. In the five years preceding the 2014-15 fiscal year, the workers' compensation fund was running negative ending balances of between $2.3 million and $3.9 million. This deficit situation turned around in 2014-15 when the district produced a positive ending balance of $8.2 million. The projection for 2015-16 is $9.8 million and is based on an actuarial study.[35]

The district has met the benchmark of adopting a plan to address long-term liabilities due to its overall improvement in this area.

29 Adopted Budget 2015-2016; date submitted: September 10, 2015; Chancellor's transmittal letter, page 12.
30 SharePoint: *2016-17 Budget Development Guidance* memo from Ron Gerhard, P.7, item 20.
31 SharePoint: *2016-17 Budget Development Guidance* memo from Ron Gerhard, P.7, item 20.
32 Adopted Budget 2015-2016; date submitted: September 10, 2015; Chancellor's transmittal letter, page 12.
33 SharePoint: *2016-17 Budget Development Guidance* memo from Ron Gerhard, P.7, item 21.
34 Interview with V.C. Ronald Gerhard, 2/16/16
35 SharePoint Word document; Self-insured workers comp

Conclusion

City College of San Francisco is meeting all five of the benchmarks for continued funding specified in Education Code Section 84750.6, allowing for continued special stabilization funding. Even so, FCMAT recommends that the district continue to work diligently to address the many issues affecting its fiscal stability

FCMAT would like to thank the college and administration for their cooperation and assistance during the fieldwork. If you have any questions or require additional information, please contact me at (415) 987-3104.

Sincerely,

Michelle Plumbtree
Chief Management Analyst