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

November 3, 2016

Anthony E. Beebe, Ed.D.
Superintendent/President
Santa Barbara City College
721 Cliff Drive
Santa Barbara, CA 93109

Dear Superintendent/President Beebe:

The purpose of this management letter is to present the Fiscal Health Risk Analysis prepared by the Fiscal Crisis and Management Assistance Team (FCMAT) resulting from the review of Santa Barbara City College. As indicated in the study agreement dated August 15, 2016, FCMAT was to perform the following:

1. Assist the SBCC in developing a multiyear financial plan (MYFP) for the current and two subsequent years based on current economic forecasts to sustain the SBCC's recommended reserve levels and financial solvency and stability.

2. Using FCMAT's Fiscal Health Risk Analysis for Community Colleges, complete a fiscal health analysis of the SBCC to evaluate the key fiscal indicators used to measure risk of insolvency in the current and two subsequent fiscal years.

FCMAT, in conjunction with Cambridge West Partnership, LLC, reviewed and provided guidance to SBCC as it developed its multiyear financial projection. FCMAT also completed a Fiscal Health Risk Analysis to provide SBCC an overview of its fiscal condition and a blueprint to help determine the next steps when developing an overall financial plan. FCMAT did not complete a comprehensive audit or review of the district's financial reports.

Multiyear financial projections (MYFPs) are an important part of the budget process. They should be produced accurately and contain the most current fiscal information available. MYFPs allow the district to project revenues and expenditures and help ensure it can meet its financial obligations in the current and subsequent fiscal years. FCMAT reviewed the budget assumptions utilized in the MYFP prepared by the district to ensure its validity and reviewed the performance of the district's funds over the last several years to identify trends and formulate questions about the status of accounts. Any financial forecast has inherent limitations because it is based on certain criteria and assumptions rather than on exact calculations. Limitations include issues such as the accuracy of baseline data, unpredictable timing of negotiations, unanticipated changes in enrollment trends, and changing state, federal and local economic conditions. Forecasts are considered reliable if they represent the known factors at any given time. They should be viewed as a trend based on certain criteria and assumptions rather than as a prediction of exact numbers, and must be updated at frequent intervals as well as when significant financial changes are made to the district's budget in current or future years.

FCMAT
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FCMAT reviewed the district's September 12, 2016 document, "Assumptions Used to Develop The 5 Year Projection, 2016-17 through 2020-21, as of September 2016, " which is an update to what was included in the "Santa Barbara City College Long Range Plan," dated April 14, 2016 (although there were plans to provide it to the board at a study session in April 2016, that session was canceled).

FCMAT reviewed the original fiscal projections (April 2016) and the latest version (September 2016) and provided feedback that the district incorporated. FCMAT concurs with the district's strategy of routing the assumptions and projections through the collegial consultation process so that various affected groups are involved and understand the projections.

The key to the district's financial projections is the need for the board to approve a broad, high-level policy on enrollment strategy, determining the strategic mix of credit, Career Development and College Preparation (CDCP), and regular noncredit (i.e., Adult Education) apportionment generating classes. Enrollment efficiency and productivity must be a part of this. Such a policy is critical in helping the college determine its optimal size and composition to develop an MYFP for the current and two subsequent years to sustain its recommended reserve levels and financial solvency and stability.

The college has a history of conservative budgeting, "unqualified" audited financial statements and large fund balances. Through time, the fund balance has been more than adequate to address deficit spending. While the attached Fiscal Health Risk Analysis reflects an overall low risk level for SBCC's insolvency at this time, the college's updated MYFPs indicate a dire financial situation for the district if it continues on its current path. SBCC has made no real plan to mitigate deficit spending, relying on the district's reserves to cover overages. Reserves are significant and seem sufficient to compensate for any overspending; however, this is not an effective solution to a problem that will certainly result in disaster without corrective action.

Even districts with robust fund balances and reserves face future fiscal uncertainty without a plan to stop the deficit spending. Without a plan to change current spending patterns and avoid an impact on the fund balance, reserve levels can decline to unhealthy amounts because of the many uncontrollable economic factors that local educational agencies (LEAs) face. The economy and state revenues are robust, but based on historical trends, a downturn in the economy is inevitable. In the past, economic downturns have had major impacts on California community college districts. When state revenues decrease, enrollments increase as the unemployment rate increases. The net result has been less overall funding and a greater demand for services.

As the district's MYFP and fiscal health risk analysis indicate, SBCC's fiscal health depends on developing a multiyear plan to eliminate deficit spending. The board must make a decision on one of several options detailing how to address this issue.

The district must increase communication and budget awareness, establish and maintain fiscal controls, implement enrollment management processes, determine the "optimum size" for the college, scrutinize all construction contracts for detrimental budget/reserve impacts, and maintain budgets that are congruent with the board's enrollment policy decisions. Even large reserves do not replenish on their own and therefore will become depleted, endangering fiscal solvency, unless the district implements and maintains prudent fiscal policies and procedures.

It is essential to keep the board, and all those affected, informed about the district's financial projections. Though information is provided at the statutorily required times, FCMAT believes additional communication is necessary, as well as discussion of information in a way that the outcome is better understood. This should include aligning the budget to actual spending to improve the accuracy of the estimated ending balance during the year. The district cannot rely on conservative budgeting. The budget must better represent what is actually occurring so that there is greater confidence in the budget, i.e., understating revenues and overstating expenditures. While senior management in the finance and administrative services unit is experienced and knowledgeable, that level of expertise has not been sufficient to eliminate concerns or uncertainty about fiscal data. While a great amount of detailed and comprehensive analysis is performed on the budget, negotiations, and overall finances, that information is not widely distributed, especially not outside of cabinet. Therefore, the awareness level is low, especially at the board level.

While statutory reporting and fiscal information are submitted to the board, little else is communicated other than what is legally required. This is causing an information gap that is viewed negatively. In general terms, AP6300, Fiscal Management includes the following directives:

- Ensure the Board of Trustees is current on the fiscal condition of the District as an integral part of the policy and decision-making process.
- Effectively utilize available human and facility resources and ensure that staffing costs do not exceed estimates of available financial resources.
- Ensure relevant planning processes consider reasonable future costs associated with maintenance, upgrade, repair, replacement, and use.
- Provide public presentations that are clear, transparent, and effective in communicating the financial information of the District.
- Effectively communicate fiscal policies, budget, objectives, procedures, and constraints to the Board of Trustees, employees, and students.

Because of the perceived lack of information and communication, the district should consider updating policies and regulations so that they are more specific about the budget/fiscal involvement expectations of the board. This will allow the staff to be better prepared to provide the board with the information necessary to make decisions about the district's fiscal health. The board and administration should have the same information, goals and expectations.

Subsequent Events

On October 3, 2016 FCMAT received from the district an updated five-year projection through 2020-21 that included reduced state revenue projections based on reduced enrollment. However, this new information did not change FCMAT's findings in the above Fiscal Health Risk Analysis, which was completed based on documents the district supplied in September. Therefore, FCMAT did not include the updated projection information in its analysis. FCMAT commends the district for its diligent work in completing the update so that there would be more accurate projections.

The updated projections show a dire financial situation for the district. They also reinforce the fact that although the quality and reliability of the projections are very high, because of the district's large fund balances, its internal fiscal division's work has not been disseminated widely or systematically enough to ensure that all interested parties are aware of what the projections indicate. Based on this data, the governing board must provide clear and documented high-level policy direction to the administration concerning budget preparation and enrollment management processes.

Although the district's large fund balance gives it some time to address its financial challenges, its level of deficit spending makes it imperative they be remedied. The governing board must make informed policy decisions so that the administration can develop and implement the operational strategies needed to address the challenges.

Critical board policy decisions that need to be made include the following:

- Strategic mix of credit, CDCP (i.e., enhanced noncredit), and regular noncredit (i.e., Adult Education) apportionment generating classes.
- Enrollment management efficiency and productivity targets and the understanding about the importance of an adequate average class size to fiscal health.
- Determination of the district's optimum size.
- The use of and size of the unrestricted general fund ending balance.
- Require the integration of multiyear fiscal projections into its budget development, and ongoing board review of the budget processes.

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 Giacomini

FCMAT Chief Management Analyst

FCMAT Fiscal Health Risk Analysis

Is the district's fiscal health acceptable in the following areas?

1. Deficit Spending — No

Is the district avoiding deficit spending in the current year? — **No**

As presented to the board of trustees on June 9, 2016 and June 23, 2016 the 2016-17 unrestricted general fund tentative budget included an operating deficit of $1.6 million.[1] That tentative budget was approved on June 23, 2016.

As approved by the board of trustees on September 8, 2016, the unrestricted 2016-17 general fund adopted budget includes an operating deficit of $4 million.[2]

Is the district avoiding deficit spending in the two subsequent fiscal years? — **No**

As presented on page 20 of the adopted budget that was approved by the board on September 8, 2016, revenue-generating full-time equivalent students (FTES) is projected to decrease from 14,273 in 2014-15 to 12,106 in 2018-19.[3] In interviews, SBCC administrators and faculty indicated that the decline of revenue-generating FTES could actually be much higher because of the elimination of foreign student recruiting, the elimination of out-of-district recruitment efforts, the loss of approximately 700 beds at the UC Tropicana facility, and the Santa Barbara High School District potentially dropping college freshman-experience classes.[4] A July 26, 2016 report[5] by the executive vice president reinforces the opinions expressed in interviews.

Section 20 at the end of this fiscal health narrative includes further discussion on this subject.

As projected on pages 6 and 7 in the September 12, 2016 version of the Long Range Financial Projections, 2016-17 through 2020-21[6] indicate:

- The deficit in the subsequent two fiscal years could be approximately $4 million.
- The two major factors affecting the magnitude of the operating deficit are identified as the district's enrollment management policy and the replacement policy/schedule for the Supplemental Early Retirement Plan (SERP) retirees.

As presented in the Santa Barbara City College Long Range Fiscal Plan, FTES and college revenues are both projected to decline. The fiscal plan projects several scenarios based on various levels of revenue decline and expense management. As stated on page 54 of the fiscal plan, deficit spending for the subsequent fiscal years can be avoided if:

- Revenues and expenditures are balanced by matching the decrease in revenues with a corresponding decrease in expense categories.
- The decrease in revenues will result in a matching decrease in expenditures of 7.3% for 2016-17, 7% for 2017-18, 2% for 2018-19, and 0% in 2019-20 and 2020-21.
- In addition, the following assumptions are also incorporated:
    1. Any COLA increase will be applied to all salaries and benefits. No increases to salaries is projected outside COLA.

2. Employer contribution towards health benefits increase for PPO 80% plan to maintain out-of-pocket to $0 for employees is estimated at 3% of the health benefits per year.
3. The fixed and mandated expenses increase by $50,000 annually based on actuals and trends.
4. The CalPERS and CalSTRS employer contribution rate increase is based on the current PERS and STRS estimates.

Given the college's documented priority of providing competitive compensation[8] and the recent history of transferring funds from the unrestricted general fund to fund 40 to cover capital construction projects costs, it cannot be assumed that the district will automatically balance ongoing expenditures to ongoing revenues (also a principle in Board Policy (BP) 6225) without specific board action to do so.

Has the district decreased or eliminated deficit spending over the past two fiscal years? **No**

As documented in the 2016-17 tentative budget, page 2, the 2015-16 operating deficit was projected to be $6 million.

As documented on page 9 of the 2016-17 adopted budget approved by the board on September 8, 2016, the 2015-16 operating deficit was projected to be $2.1 million, which was an improvement over the tentative budget projection.

Is deficit spending covered by fund balance, ongoing revenues or expenditure reductions? **Yes**

SBCC has been maintaining one of the highest proportional fund balances in the California community college system. Even with the 2015-16 deficit spending reflected on page 9 of the adopted budget, there is still an estimated unrestricted general fund ending balance of $29.4 million, which is about 21.5% of expenditures. In 2016-17, the ending balance is tentatively budgeted to be $27.1 million, which is about 28.5% of expenditures.[9]

Has the board approved a plan to eliminate deficit spending? **No**

Although the fiscal plan included strategies for eliminating the deficit spending, that document has not gone to the board for consideration. There is no documentation of an approved fiscal plan that would eliminate the deficit spending. The board-approved adopted budget of September 9, 2016 is the only approved fiscal plan, and it includes deficit spending.

2. Fund Balance — Yes

Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty? **Yes**

The district has adopted and followed a board policy committed to a fund balance consistently above the recommended reserve for economic uncertainty The Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges (ACCJC), California Community Colleges Chancellor's Office (CCCCO) and FCMAT recommend a California community college maintain a minimum fund balance (which is generally interpreted to mean the same as reserve for economic uncertainty) of 5%[10]. Five percent is a recommended minimum since a 5% reserve covers only a portion of any district's monthly payroll costs.

As documented in the 2016-17 adopted budget and in the historical information in the fiscal plan, the SBCC fund balance is consistently over 25% of expenditures.

As reported in the Fiscal Data Abstract 2014-2015 compiled by the CCCCO, in 2014-15 SBCC had the second highest unrestricted general fund net ending balance as a percent of expenditures in the system, and its 33.8% was approximately double the system average of 17.3%.[11]

Similarly, as reported in the Fiscal Data Abstract 2013-14 compiled by the CCCCO, in 2013-2014, SBCC had the highest unrestricted general fund net ending balance as a percent of expenditures in the system, and its 34.3% was approximately double the system average of 17.4%.[12]

The district's conservative unrestricted general fund ending balances, as opposed to the recommended minimum of 5%, will allow SBCC time to prevent insolvency if adequate plans are adopted and followed to eliminate deficit spending and implement and maintain prudent fiscal policies and procedures.

Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions? No

As documented in the 2016-17 adopted budget, the tentative budget, and in the referenced fiscal plan, the fund balance has decreased and is projected to continue to decrease.

Does the fund balance include any designated reserves for unfunded liabilities or one-time costs above the recommended reserve level? Yes

As stated in SBCC BP 6305, Reserves: the unrestricted general fund reserve shall include:

- A minimum 5% general fund contingency; PLUS
- Funds to cover all banked teacher load unit (TLU)[13] obligations; PLUS
- Funds equivalent to any deferrals of the college's state apportionment OR 15% of annual projected unrestricted general fund expenditures, whichever is greater
- In addition to the unrestricted general fund reserve, the district will maintain two specific reserves:
    1. Facility and infrastructure maintenance, and
    2. Equipment.

The board of trustees has established a minimum base reserve for each as follows. This base funding is designated as a minimum fund level within the specific reserve; however, it may be allocated if necessary for the intended purposes of the fund.

- Facility and infrastructure maintenance fund: $2 million
- Equipment fund: $1.5 million

These base reserves are included in the 2016-17 adopted budget approved on September 8, 2016.

3. Reserve for Economic Uncertainty Yes

Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends? Yes

By "maintain" this report assumes maintaining the percentage of unrestricted and undedicated general fund balance as a percentage of expenditures at a minimum of 10%, which is double the CCCCO's 5% minimum level.

The maintenance of the current level of 20% to 30% reserve demonstrates conservative fiscal practices, and should be evaluated whether that high of an ongoing reserve is congruent with the mission of a California community college and the intent of the taxpayers who fund the California educational system.

The previously cited September 2016 Long Range Financial Projections[14] demonstrates that the district has the opportunity and ability to maintain a reserve for fiscal uncertainty that is more robust than the generally accepted standard for California community colleges even given pessimistic enrollment and revenue projections. The calculations on pages 6 and 7 for projected ending fund balance range from 27% to 29% of total expenditures in 2017-18 and 24% to 29% in 2018-19. As with any district, having the ability and capacity to maintain an adequate reserve does not ensure that the reserve will be maintained. Continued large transfers from the unrestricted general fund to the capital projects fund and other additional expenditure scenarios could easily eliminate the reserve for economic uncertainty.

Given the previously cited $27.1 million ending fund balance in the adopted budget, the fund balance could decrease by more than $22 million and still be more than the 5% minimum standard for California community colleges.

Does the district have additional reserves in other funds? **Yes**

As stated in SBCC BP 6305, Reserves: The unrestricted general fund reserve shall include:

- A minimum 5% general fund contingency; PLUS
- Funds to cover all banked TLU obligations; PLUS
- Funds equivalent to any deferrals of the college's state apportionment OR 15% of annual projected unrestricted general fund expenditures, whichever is greater

In addition to the unrestricted general fund reserve, the district will maintain two specific reserves:

- Facility and infrastructure maintenance and
- Equipment.

The board of trustees has established a minimum base reserve within each specific reserve; however, it may be allocated if necessary for the intended purposes of the fund.

- Facility and infrastructure maintenance fund: $2 million
- Equipment fund: $1.5 million

The 2016-17 adopted budget complies with BP 6305.

If not, does the district's multiyear financial projection include a plan to restore the reserve for economic uncertainty? **N/A**

4. Enrollment and FTES — No

Has the district's enrollment been increasing or stable for multiple years? **No**

As documented in the chart on Page 20 of the 2016-17 adopted budget,[15] FTES have declined from 14,273 in 2014-15 to 13,295 in 2015-16 and a projected 12,364 in 2016-17.

Is the district's enrollment projection updated at least semiannually? **Yes**

The enrollment projection is continuously reviewed and formally reviewed by the president's cabinet approximately three weeks before the submission of the quarterly CCFS-320 reports to the CCCCO.

Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? **No, historically; Yes, currently**

Until recent years, the college was growing, and staffing adjustments were not necessary.

In 2015-16, the retiring superintendent/president and board approved the addition of full-time faculty positions despite actual and projected declining enrollments and the potential loss of Proposition 30 Education Act Protection (EPA) funding.

However, in August 2016, the college offered the district's first SERP in at least 20 years to all categories of district employees. The initial surveys and the level of employee communications to the SERP administrator, Keenan and Associates, indicate that the SERP may reasonably be expected to result in a significant reduction of full-time staff and cost savings to the institution.

The reduction of the number of sections, and therefore, the number of adjunct faculty is consistent with the decrease in enrollment. Compared to the 2015 fall term, enrollment has dropped about 7%, and the number of sections has been reduced by about 6.5% (153 sections). [16]

Although the 2016-17 tentative and adopted budgets included decreased classified and other nonacademic salaries compared to the 2015-16 unaudited actuals, when this report was written it was too early to determine what, if any, actual reduction was made to classified expenditures in 2016-17 as a result of the declining enrollments.

Does the district analyze enrollment and FTES data? Yes

Daily enrollment reports by class and section are produced and electronically distributed daily by the Institutional Research, Assessment & Planning Office. Although the reports are distributed daily, based on interviews with administrators and constituent representatives, the use of the information among the chairs is inconsistent. It is critical for the department chairs to review and use this information since they do most of the scheduling. FCMAT reviewed various enrollment and enrollment management reports online.

Does the district track historical enrollment and FTES data to establish future trends for projection purposes? No

The district maintains historical enrollment and FTES data; FCMAT reviewed a sample of that data, which is easily accessed through the interactive and graphic Program Review software.

The data is available, but the district has not used it according to FCMAT interviews. Prior to the enrollment declining, the college did not believe it needed to include the historical data in its enrollment management. It now plans to include the historical information, and training will be provided to the deans and chairs to maximize the value of the historical data and trends.

Has the district implemented any programs to increase FTES? Yes

Summer session was extended from one six-week term to two six-week terms on a trial basis. That strategy increased the summer FTES over 2014.[17]

A new initiative, the SBCC Promise, will be funded by the college foundation and directed at the district's feeder high schools beginning the 2016 fall term. This program promises free tuition, books and supplies to students who meet certain criteria such as being enrolled full-time and maintenance of a 2.0 or better GPA.

Administration is also preparing a more comprehensive proposal for strategies to offset the loss of nondistrict enrollments.

Do colleges maintain an accurate record of enrollment and FTES that is reconciled monthly? Yes

There is no evidence that FTES is not accurately recorded. In 2015, an adjustment of .45 FTES was made because of an inaccurate calculation of contact hours.[18] FTES were understated by .42 FTES because of inaccurate calculation of contact hours. The CCFS 320 reports that actual enrollment numbers to the CCCCO have been filed on a timely basis, and there is no evidence of inappropriate retroactive corrections to those reports.[19]

The district has consistently filed a CCFS S320 recalculation report in November, which is a customary practice within the community college enrollment reporting procedure. The November recalculation usually reflects noncensus FTES reporting such as open-entry-open-exit and work experience classes.

Note in addition to the FCMAT checklist:

The most critical issues in the analysis of the SBCC's future fiscal health are current and projected enrollments, the potential fiscal impacts of the potential enrollments and the potential reductions to expenditures and programs. Because of the critical importance of this discussion, a special narrative has been added to the end of this Fiscal Risk Health Analysis as item #20.

5. Debt — Yes

Does the district have a recent actuarial study and a plan to set funds aside for unfunded liabilities? — Yes

The district's only unfunded liability is a relatively small Other Post-Employment Benefits (OPEB). The district funds the ongoing cost of those benefits on a pay-as-you-go basis. The OPEB liability on June 30, 2015 was less than $2.5 million.[20]

Does the district maintain low levels of nonvoter-approved debt? — Yes

The district does not maintain nonvoter-approved debt.

The district's only voter-approved debt is the Proposition 30 Measure V construction bonds, passed June 3, 2008, which are repaid by a tax levy on real property collected by the county and passed through to the district.

Is the district conforming to GASB 68 requirements by recognizing and reporting its proportionate share of net liability for pension programs? — Yes

The district's compliance to GASB 68 is documented on page 2 of the 2014-15 audited financial statements.[21]

Although the 2015-16 audited financial statements are not finalized, there is no indication that the district will not continue to comply with all GASB requirements, including GASB 68.

6. Cash Monitoring — Yes

Can the district manage its cash in all funds without interfund borrowing? — Yes

Because the district maintains significant cash balances, interfund borrowing is not necessary.

The year-end cash balance deposited with the county was $87.5 million. [22]

If interfund borrowing is occurring, does the district repay the funds within the statutory period in accordance with Education Code Sections 85220 to 85223? — N/A

Does the district forecast its cash receipts and disbursements and verify them at least monthly to ensure that cash flow needs are known with plenty of notice? — N/A

Although cash analysis occurs, it is not performed monthly. The impact from not performing monthly cash flow analysis may be inconsequential because of the district's large cash balances, but the industry standard and best practice is to forecast cash receipts and disbursements monthly.

There are no indications that cash flow has been an issue for the district.

Does the district have a plan to address short-term cash flow needs? **N/A**

Are cash balances reconciled to bank statements monthly? **Yes**

FCMAT verified that bank statements were reconciled to cash balances on a monthly basis.

7. Bargaining Agreements — Yes

Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years? **No**

Settlements have been above COLA.[23]

The increased cost to the district is more than the cost of the salary and wage increases, as there is also an automatic increase to the associated benefits, such as payroll taxes, CalPERS and CalSTRS as a percentage of that compensation increase.

Did the district conduct a presettlement analysis, including multiyear projections, identifying ongoing revenue sources or expenditure reductions to support the agreement, as well as the long-term effects on the district? **Yes**

The district administration prepared presettlement analyses that were shared with the president's cabinet, the collective bargaining teams, and the board in closed sessions[24].

The presettlement analyses have not been presented in a public forum. These cost analyses are not commonly shared in a public forum in the California community college system.

FCMAT reviewed 2013-14 fiscal analysis files and emails. Those files demonstrate in-depth analysis of options and potential fiscal outcomes.[25]

FCMAT was not able to document how extensively the analyses were provided to the administrators and the board.

Did the district correctly identify the related costs above the COLA (e.g. statutory benefits, step and column)? **Yes**

Did the district address budget reductions necessary to sustain the total compensation increase, including a board-adopted plan? **No**

It has not been necessary for the district to approve budget reductions to offset salary increases to date since increases have been offset by either increases in revenue or corresponding decreases in other expenditure categories.

Because the state did not provide a COLA, and SBCC enrollments and revenues sharply declined, the district and collective bargaining representatives have formed a Median Salary Formula Workgroup that is actively and collaboratively studying the situation and developing multiple strategies for moving forward. The stated goal of the workgroup on slide #2 is to "Develop a formula to provide the median salary of the comparative group for faculty, classified staff and managers". This goal is a difficult one due to the lack of COLA and the declining revenue-generating enrollments.

The 2015-16 comparative salary study showed an approximate 2.5% to 3% disparity between SBCC and the median of the comparative group, with SBCC lower.

The workgroup developed the Median Salary Formula Workgroup's July 14, 2016 PowerPoint.[26] The PowerPoint includes a five-year projection and multiple scenario analyses. Each of the three scenarios attempts to provide increased compensation commensurate with state funding and each scenario includes the following assumption: "Balances revenues and expenditures by matching the decrease in revenues with a corresponding decrease in all expense categories."

Did superintendent/president and CBO verify the affordability of the agreement prior to ratification? **Yes**

FCMAT reviewed analyses for 2013-14, and 2015-16 that demonstrate the fiscal impacts of previous salary adjustments and reflected affordability of agreements in multiple years.

Is the governing board's action consistent with the superintendent/president's recommendation after verification of affordability? **Yes**

Board agendas and signed collective bargaining agreements are congruent with the superintendent/president's recommendations.

Did the district disclose the costs associated with a tentative collective bargaining agreement, before it becomes binding on the district? **No**

Although not provided to the public, the administration provided the information in board closed sessions as allowed by the Ralph M. Brown Act as part of the collective bargaining process.

These cost analyses are not commonly shared in a public forum in the California community college system.

8. General Fund — Yes

Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? **Yes**

The CCCCO's 2014-15 Fiscal Data Abstract reflects average compensation as a percent of expenditures at 85.3%; SBCC was 83.7%;, the 29th lowest in the community college system.[27] [28]

On a per FTES basis, SBCC salaries and benefits at $5,245/FTES are below the state average of $5,435; the SBCC total compensation per FTES is the 26th lowest of the 72 districts.[29]

Comparing the relationship of total compensation to total expenditures, between 2014-15 year (the most recent year in the CCCCO Fiscal Data Abstract database) and the historical and budgeted amounts on page 20 of the 2016-17 adopted budget, indicates that SBCC is still projected to be below the state average.

Is the district making sure that only ongoing dollars pay for permanent staff? **Yes**

Does the budget identify future reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years? **N/A**

The district does not maintain a parcel tax, or other one-time sources (such as Proposition 30) that are expiring in the budget or two subsequent fiscal years.

Does the district ensure that parcel tax is not paying for ongoing expenditures? **N/A**

Is the district ensuring that litigation and/or settlements are minimized? **Yes**

FCMAT reviewed the district's expenditure accounts, as well as the audited financial statements' disclosure, which do not indicate excessive litigation or settlement costs.

However, the review of the expenditure accounts indicates higher than expected legal services fees. Further research found that these result from an unwritten policy to have all contracts, no matter how routine or simple or expensive, formally reviewed by outside legal counsel. There is no board policy or administrative procedure that formalizes this abundantly cautious policy.

9. Encroachment **Yes**

Is the district aware of the contributions to restricted programs in the current year? (Identify cost, programs and funds) **Yes**

The district has limited encroachment contributions from the unrestricted general fund, including both a $200,000 transfer to the Children's Center and $200,072 to the Food Service program in 2016-17.

The district monitors categorical funds to prevent unintended encroachments. Although the adopted budget assumes limited encroachment, the district ensures that encroachment is not increased during the year.

Does the district have a reasonable plan to address increased encroachment trends? **N/A**

Does the district manage encroachment in all funds? **Yes**

10. Management Information Systems **Yes**

Is the district's financial data accurate and timely? **Yes**

Recent audited financial statements have been unmodified and unqualified.

There is no evidence of mandated corrections or adjustments from the CCCCO.

The district complies with California Code of Regulations, Title 5, Section 58307 concerning the requirement that end-of-the-year expenses must be less than budget in the major object categories[30].

Are the mandated reports filed in a timely manner? **Yes**

There is no evidence of any mandated reports being filed late.

There is evidence that mandated reports that are required to go to the board of trustees have done so within mandated timelines.

Are key fiscal reports — including those on personnel, payroll and budget — accessible, timely, and understandable? **Yes**

Twelve college administrators and constituent leaders were interviewed, and each individual was specifically asked about the subject of accessible, timely and understandable fiscal reports. All responses were positive. Multiple respondents mentioned the ease and accessibility of three specific systems. The Program Review online system provides historical program data that is easy to retrieve and understand. The Tableau system provides real-time enrollment tracking information in an easy-to-understand format. The Simpler overlay to the powerful but complex Banner enterprise system allows for easy access to, and reporting from, the fiscal database.

FCMAT easily accessed the information in the three systems and found the resulting reports and displays informative and easy to understand.

Anecdotally, it appears as if the administration could do a better job of understanding the needs of the board and creating the necessary summary reports in a format and medium that is most useful to the board members.

FCMAT followed up on a perception that changes are made to prior fiscal-year data, especially expenditure data; however, there was no evidence of irregular or unusual prior-year adjustments or adjustments to prior-year audited financial statements. During the closing process, which occurs for roughly four months after the close of the fiscal year, a district typically makes many adjusting entries, some of which must go to the board after the fact. For example, if changes mandated during the closing process (frequently involving accruals and encumbrances) cause a major object category of expenses to exceed the board-approved budget, then to comply with Title 5 regulations, specifically California Code of

Regulations, Title 5, Section 58307, the district's administration must bring a prior-year budget adjustment to the board. Such budget adjustments don't change the prior-year expenditures in totals, just the allocation of budget at the macro major object level.

11. Position Control and Human Resources — YES

Does the district maintain and use an effective and reliable position control system that tracks personnel allocations and expenditures? — **Yes**

The district has had position control since Banner was implemented in 2006. Within the last year, position control was linked between the Human Resources and Fiscal divisions.

FCMAT reviewed position control documents.

FCMAT specifically followed-up on a reporting issue related to the FON (full-time faculty obligation). Historically SBCC misinterpreted the Title 5 regulations concerning the definition of full-time faculty that needed to be included in the FON calculation. The district administration involved the CCCCO staff to review the district's FON calculations and the fall 2016 calculations now appear to be congruent with Title 5.

Is position control integrated with payroll and the financial system? — **Yes**

FCMAT confirmed that the systems are integrated.

Does the district control unauthorized hiring? — **Yes**

An approved and budgeted position must exist in order for a position to be filled.

All requests to fill open positions go to president's cabinet for review, with multiple levels of approvals required to fill a position.

The Banner system is programmed to flag any adjunct with a 67% load, which prevents unintentional and unauthorized tenure track eligibility.

Is the district able to control overstaffing? — **Yes**

The district has processes to ensure that unauthorized hiring does not occur, which assists in limiting overstaffing.

Are the appropriate levels of internal controls (e.g. checks and balances) in place between the business and personnel departments to prevent fraudulent activity? — **No**

Appropriate checks and balances and separation of duties exist.

However, there is no internal auditor as the CCCCO and most counties require this for a "fiscally independent" district. See item #17.

Is position control reconciled against the budget during the fiscal year? — **Yes**

Position control is reconciled against the budget in the Banner financial system during the fiscal year.

Does the district offer or ensure that staff members attend professional development regarding financial management and budget? — **Yes and No**

Although the district's human resources office offers several financial and budget training opportunities during the course of the year, and the fiscal office staff conducts more focused training for individual departments as requested, the district does not ensure all staff members attend professional development regarding financial management and budget.

12. Budget Development and Adoption **Yes**

Is a budget calendar used that contains statutory due dates and the major budget development milestones? **Yes**

FCMAT reviewed and confirmed the existence of a comprehensive budget development calendar.

A comprehensive budget calendar is required by BP 6200, Budget Preparation.

Are there clear processes and policies in place to analyze resources and allocations to ensure that they align with strategic planning objectives and that the budget reflects the district's priorities? **Yes**

Based on ACCJC visiting team's January 8, 2016 External Evaluation Report[31] :

- The college's program review procedure as delineated in Board Policy 3255 includes a focused program evaluation committee that reviews the process on an ongoing basis, evaluates the quality of program reviews, disseminates best practices, and ensures linkages between planning and resource allocation and the Educational Master Plan. (Page 6)
- Resources are allocated through integrated planning process driven by the college's Educational Master Plan and Program Review process. These processes set the priorities for allocating fiscal resources. (Page 69)

However the actual adopted budget materials do not document or show evidence or the alignment of strategic planning with budget development and funding.

Is the 50% Law correctly calculated and understood? **Yes**

The 50% Law calculation is audited as part of the annual audit of the district financial statements, and the district has been found to comply in the audit reports that FCMAT reviewed. FCMAT also reviewed the calculations for three years and they appear to conform to the Education Code and Title 5 requirements.

FCMAT reviewed the 50% Law calculations in the most recent three CCFS 311 reports and found no inaccuracies of the calculations.

Are projections for FTES, enrollment, and revenue accurate and reasonable? **Yes**

Projections appear accurate and reasonable based on the assumptions that were used to generate them. In the case of SBCC, there seems to be an active discussion concerning major assumptions such as the "right size" of the college, the size and structure of the summer offerings, and the extent of the enrollment marketing and outreach outside of the district. These are important discussions that need to be continued.

Given the assumptions that have been used, the various projections of enrollments and revenue seem to accurately reflect those assumptions in the 2016-17 adopted budget, the previously cited Fiscal Plan, and the previously cited Evaluation of Summer 1 and 2 Sessions.

Is the district decreasing deficit spending and maintaining adequate reserves and fund balance when compared with the prior year? **No**

The adopted budget approved by the board on September 8, 2016 includes increased deficit spending when compared to the 2015-16 audited amount.[32]

Although the district has not decreased deficit spending, it maintains adequate reserves and fund balance when compared with the prior year. The $27.1 million projected ending balance in the 2016-17 adopted budget would still be well in excess of any CCCCO, ACCJC or FCMAT standard.

Is the budget developed using a zero-based method rather than being a rollover budget? **No**

The district attempted zero-based budgeting briefly under the former president, but was not successful.

Nonfixed and/or mandated costs traditionally have simply been rolled over at SBCC.

Does the district use position control data for budget development? **No/Yes**

The district did not historically use position control for budget development because until recently, it had no comprehensive position control system that tied to the fiscal and budgeting systems.

A comprehensive position control system is being implemented and is tied to the fiscal and budgeting systems.

Does the budget development process include input from staff, administrators, board and community, as well as the budget advisory committee (if there is one)? **Yes**

BP 6200 requires board participation.

FCMAT interviews confirmed that the process is perceived to be inclusionary and participatory.

Although the community has the opportunity to participate at the mandated board budget workshops, participation does not seem to occur.

Is the tentative budget adopted by the governing board no later than June 30? **Yes**

There is no record of a late adoption of the tentative budget.

BP 6200 requires adoption of the tentative budget before June 30.

13. Multiyear Projections — Yes

Is the final budget adopted by the governing board no later than September 15, and is it based on standards and criteria for fiscal stability? **Yes**

The budget was adopted on September 8 this year. Board minutes on the SBCC website and fiscal office records indicate that historically it has been adopted before September 15.

The budgets have historically been conservatively prepared to ensure that expenses were overestimated and revenues underestimated to make certain the unrestricted general fund balance would grow. This is problematic because the perception of overly conservative budgeting results in a reliance of additional ending balances being available to cover any overbudgeted expenditures after the fiscal books are closed.

Has the district developed multiyear projections that have reasonable assumptions? **Yes**

Page 20 of the PowerPoint presentation of the 2016-17 proposed adopted budget presented to the board on August 25, 2016 is a five-year projection of FTES and FTES-generated income.

The previously cited fiscal plan contains multiple multiyear projections and the assumptions on which they are based.

The previously cited Assumptions Used to develop the 5-Year Projection, 2016-17 through 2020-21, as of September 2016 includes two projections that are based on reasonable assumptions. Those assumptions are being reviewed by the College Planning Council.

Are projected fund balance reserves disclosed and based on the most reasonable and accurate information available? **Yes**

The fund balances are contained in the tentative and adoption budget documents and in the PowerPoint presentations during the budget workshops.

The projections are based on reasonable assumptions, however truly "accurate" projections cannot be completed until the board makes several major policy decisions concerning enrollment management, recruiting and outreach. See item #20 for a further discussion on this subject.

At a minimum, are the multiyear projections compiled at budget adoption and at the time of quarterly fiscal status reports? **Yes and No**

Multiyear projections have been compiled and presented at least annually, including during the adopted budget preparation.

Multiyear projections are not prepared quarterly. Although multiyear projections are not required at the time of the CCFS 311Q reports, they are an important part of the budget process and should be kept updated throughout the year to contain the most current fiscal information available.

14. Budget Monitoring and Updates Yes

Are budget assumptions updated throughout the year as updated information becomes available? **No and Yes**

No, historically the budget assumptions were not changed during the year because the district's administration did not believe the changes were material enough to justify changing the current year budget and projections.

Yes, beginning in 2015-16, the fiscal staff made a practice of adjusting the budgets to reflect new revenues and enrollment changes. Although the updated information has been shared within the collegial consultation and governance framework, it has not been regularly provided to the board during the year.

Are actual revenue and expenses in line with the most current budget? **No**

For at least the prior three years, the district's expenditures have been less than budgeted and revenues greater than budgeted. In other words, the district historically has budgeted conservatively compared to actual results.

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

Internally budget revisions are performed continuously.

As needed, and as required by the Education Code, budget changes between major object codes are submitted to the board in open session on a timely basis, however anecdotally it appears that the docket items have not actually helped the board understand the nature of budget changes and expense transfers.

Does the district openly discuss the impact of budget revisions at the board level? **Yes and No**

Anecdotally, it appears as if the board members actively discuss individual budget changes that are brought to them, but FCMAT believes the board members really do not understand budget changes and why they occur, and that there is an opportunity for the board to be better educated on this subject.

Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? **No**

There is no record of budget revisions being made or confirmed by the board at the time the collective bargaining agreement is ratified.

District fiscal staff also verbally confirms that this is not done at the board level with the reasoning that the changes have not been between major object codes and, therefore, board approval is not required. FCMAT recommends that budget impacts from new collective bargaining agreements be fully disclosed to the board and budgets adjusted as necessary.

Has the district's long-term debt decreased from the prior fiscal year? **No**

There is no long-term debt in the unrestricted general fund.

Are contributions to restricted programs controlled and monitored? **Yes**

Has the district identified the repayment sources for long-term debt or nonvoter-approved debt (e.g. certificates of participation, capital leases)? **N/A**

Does the district's financial system have a hard-coded warning regarding insufficient funds for requisitions and purchase orders? **Yes**

The Banner financial system includes hard-coded warning block that prevents encumbering or expending funds if there are insufficient funds in object level 4000, 5000 and 6000 accounts for requisitions and purchase orders.

Does the district encumber salaries and benefits? **Yes**

FCMAT verified that the district encumbers salaries and benefits.

Are the balance sheet accounts in the general ledger reconciled regularly? **Yes**

FCMAT verified that balance sheet accounts are reconciled regularly each year as part of the preparation of the audited financial statements.

Does the district complete and file its quarterly fiscal status reports within the statutory deadlines and ensure that they are based on standards and criteria for fiscal stability? **Yes**

CCFS 311 reports have been filed on a timely basis and comply with the standards and criteria for fiscal reporting.

15. Retiree Health Benefits — Yes

Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements? **Yes**

The GASB 45 actuarial valuation is documented in page 2 of the 2014-15 audited financial statements.[33]

The 2015-16 audited financial statements are not finalized yet, but there is no indication that the district will not continue to comply with all GASB requirements including GASB 68.

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

Because of the relatively small liability amount, the plan is to continue to fund on a pay-as-you-go basis. This plan complies with GASB requirements.

Has the district conducted a re-enrollment process to identify eligible retirees? **No**

Due to the small liability the district staff has not deemed it necessary to expend the resources necessary to perform a re-enrollment process.

16. Leadership/Stability — Yes

Does the district have a superintendent/president and/or chief business official who has been with the district more than two years? **No and Yes**

Both the superintendent/president and the executive vice president of educational programs have been with the district for less than six months.

The chief business official has been with the district approximately 13 years.

Does the governing board adopt and revise understandable and timely policies and support the administration to ensure implementation? **Yes**

The adoption and revision dates on the board policies and administrative procedures on the district website demonstrate that the policies and procedures are current.[34]

The policies and procedures are clearly written, concise, and follow the templates and guidance from the Community College League of California (CCLC).

Does the superintendent/president adopt and revise understandable and timely administrative regulations and ensure that adopted board policies and approved administrative regulations are communicated to staff and followed? **No**

Although the board policies are current, the administrative procedures on the board's website are not comprehensive. In general, the administrative procedures are simply the basic boilerplate language from the CCLC policy and procedure service; those boilerplates are intended to be a framework for the district to build its own specific procedures. Many of the administrative procedures reviewed are not adequate to give staff the direction needed to fully implement the board policies and sometimes do not reflect actual district practice. For example:

- BP 6340, Contracts, has seven administrative procedures attached to it, but none specify the exact approval limitations for different purchasing positions and for different types of contracts.
- AP 6250, Budget Management, consists of one short paragraph, which is not adequate to specify the entire budget management process.

Based on interviews it appears that some of the board members do not believe the administrative procedures adequately reflect their expectations for fiscal communications or their involvement in the budget development and budget management processes. For example, BP/AP 6200, Budget Preparation, specifies only two workshops a year; AP 6300, Fiscal Management, contains general guidelines for communications, but they do not include the specificity that seemed to be expected by board members.

Does the governing board refrain from micromanaging district administration and staff? **Yes**

Overall, the level of perceived micromanagement is not considered unusual in a California community college district.

17. Internal Controls and Annual Independent Audit Report — YES

Does the district implement appropriate measures to discourage and detect fraud? **No**

SBCC has appropriate delegation and separation of duties in its fiscal, accounting, purchasing, contracting and payroll departments.

SBCC also has appropriate signature (wet and electronic) requirements for the disbursement of funds and assignment/payment of staff.

SBCC *does not have* an internal audit function even though the district is a fiscally independent district. It is unusual for the county office of education or the county auditor not to require a fiscally independent district to have an internal auditor.

Furthermore, the guidelines issued by the CCCCO[35] require that the district have an internal audit function:

> Adequate Internal Controls - The staff of the accounting, budgeting, contracts, management information systems, internal audits, personnel, and procurement departments are adequate in numbers and skill level to admin-

ister administrative programs independent of detailed review by the county office of education and **to provide an internal audit function** that assures adequate internal controls.

Did the district receive an independent audit report without material findings? **Yes**

See pages 80-82, Schedule of Audit Findings and Questioned Costs in the June 30, 2015 audit financial statements.[36] The audits for 2012, 2013 and 2014 were also unqualified and without material fiscal findings.

Can the audit findings be addressed without affecting the district's fiscal health? **N/A**

Has the independent audit report been completed and presented within the statutory timeline? **Yes**

The 2015-16 closing and 2015 audit fieldwork are still in progress, which is within the usual time frame for a California community college district.

The previous audits that were reviewed were presented to the board and submitted to the CCCCO on a timely basis.

Are audit findings and recommendations reviewed with the board? **Yes**

The audit partner presents to the board's fiscal committee and to the full board in open session.

Did the audit report meet both GAAP and GASB standards? **Yes**

FCMAT scope of work did not include a full CPA peer audit of the audited financial statements and auditors' report, but general review of the audit documents allow FCMAT to conclude that the audits comply with GAAP and GASB standards.

18. Facilities — Yes

Has the district passed a general obligation bond? **Yes**

Measure V, 2008, $77 million.

Has the district met the audit and reporting requirements of Proposition 39? **Yes**

A review of the Measure V website[37] and the reports posted on the district's webpage indicates that the reporting requirements have been met.

Has the district met IRS spending timeline compliance requirements for bond monies issued to the district? **Yes**

Although FCMAT did not audit all expenditures in the Measure V program, interviews indicated that the district was aware of the IRS requirements. A general review of the bond issuance and expenditure timelines and the Measure V website indicate that there is no apparent basis for suspecting that the IRS requirements are not met.

Does the district have sufficient personnel to properly track and account for facility-related projects? **Yes**

The district's staffing and organization appear to be adequate to properly track and account for facility-related projects, but high-profile facilities construction and renovation cost issues have generated concerns on this subject.

FCMAT's scope of work did not include a full audit of the capital construction program and the individual projects within that program, but FCMAT reviewed the three major projects that were cited as examples of major project management and oversight problems. In each case, the understandable perceptions of systemic construction program problems resulted from issues and factors outside of the control of the administrators and facilities staff. For example, in the project that is the most egregious-appearing example of mismanagement, the critical bridge that connects to two hilltop sides of the campus:

> The original budget of approximately $400,000 to a finished cost of over $4 million. It was budgeted to be a relatively minor cosmetic project that involved replacing wood fascia and repainting; when some of the wood was removed, it was discovered that the bridge had serious structural damage and would have to be replaced. Demolishing the bridge and building a new one would have had devastating negative impacts on the college since the two hilltops would have no longer been connected while the replacement was constructed. So the decision was made to pursue an expensive alternative that maintained connectivity while a permanent and safe replacement was constructed.

Does the district prioritize facility issues when adopting a budget? Yes

As stated in SBCC BP 6305, Reserves:

> The unrestricted general fund reserve shall include:
>
> - A minimum 5% general fund contingency; PLUS
> - Funds to cover all banked TLU obligations; PLUS
> - Funds equivalent to any deferrals of the college's state apportionment OR 15% of annual projected unrestricted general fund expenditures, whichever is greater
>   - In addition to the unrestricted general fund reserve, the district will maintain two specific reserves:
>   1) Facility and infrastructure maintenance and
>   2) Equipment.
>   - The board of trustees has established a minimum base reserve for each as follows:
>   - Facility and infrastructure maintenance fund: $2 million
>   - Equipment fund: $1.5 million
>   - Those reserves are included in the 2016-17 adopted budget approved on September 8, 2016.

The 2016-17 adopted budget transfers $3.8 million from the unrestricted general fund to the capital projects fund. In 2015-16, $16.4 million was transferred from the unrestricted general fund to the capital projects fund.

The district has a justifiable concern about whether it will be able to continue to maintain and appropriately modernize facilities without another general obligation bond. The district's needs were documented in the materials used to justify the failed attempt at a second bond. The district is transferring funds from the unrestricted general fund to the facilities fund, but at a magnitude that cannot continue indefinitely.

If needed, does the district have surplus property that may be sold or used for lease revenues? **N/A**

If needed, are there other potential statutory options the district can use rather than declaring the property as surplus and enter into agreements with some entities per the Education Code, such as joint use or joint occupancy? **N/A**

19. General Ledger Yes

Does the district record all financial activity for all programs accurately and in a timely manner, ensuring that work is properly supervised and reviewed? **Yes**

The 2012, 2013, 2014 and 2015 annual audits were all "unqualified" with no material fiscally related findings.

FCMAT validated a sampling of college procedures and practices and found no issues.

Has the district closed the general ledger (books) within the time prescribed by the chancellor or superintendent/president's office? **Yes**

FCMAT did not find that the timeline has been missed in recent history.

There have not been audit comments or exceptions on the subject of the general ledger being closed late.

Does the district follow a year-end closing schedule? **Yes**

FCMAT reviewed a very detailed closing schedule.

Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year? **Yes**

FCMAT confirmed that the beginning balances have been recorded correctly in prior years.

Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued? **N/A**

Does the district reconcile all suspense accounts, including payroll, at the close of the fiscal year? **Yes**

FCMAT confirmed for the last three years that the district reconciled all suspense accounts.

20. Additional Narrative on Current and Projected Enrollment and the related Potential Fiscal Impact

The greatest threat to the district's fiscal health is declining enrollment and the corresponding reduction of state funding. This has been a known threat since 2009-10. Although some of the recent enrollment decline is almost certainly because of the robust economy, the declining unemployment rate, and the usual positive correlation between the movement of the unemployment rate and community college enrollments, other factors include the elimination of one of the largest noncredit programs in the state (generating at one point more than 2500 FTES), a poor focus on enrollment management (including productivity and efficiency), less enrollment outreach outside of the district and the strategic mix of credit, enhanced noncredit (i.e., CDCP), and nonenhanced noncredit (i.e., Adult Education).

As enrollment has declined, causing a corresponding reduction in state funding, expenditures were not proportionally decreased. Although this has been a known scenario, no action has been taken. Expenditures must be reduced in alignment with associated revenues or a downward trend will begin until specific action is taken to focus on the problem. From interviews, FCMAT found that the change in the district's enrollment and enrollment outreach policies is focused on discouraging out-of-district enrollments, and more specifically, out-of-state and out-of-country enrollments.

The enrollment volume and nature of the students (i.e. credit, noncredit) affect revenue to the district, which also has a major impact on staff and facilities expenses. Two of the projections included in the September 2016 update reflect that the district can maintain a healthy unrestricted ending fund balance of more than 20% of expenses until 2020-21, but both projections are based on enrollment declines of only 7.3% in 2015-16, 7.0% in 2016-17, 2.0% in 2017-18 and then flat enrollment through 2020-21. As with any enrollment projections, they must be reviewed and updated regularly as actual enrollment numbers are realized and new assumptions are known to ensure that the projections are realistic and not overly optimistic. For instance, the decline of revenue-generating FTES could actually be much steeper because of the elimination of foreign student recruiting, the elimination of out-of-district recruitment efforts, the loss of approximately 700 beds at the UC Tropicana facility, and the Santa Barbara High School District, potentially dropping college freshman experience classes.[41]

Although this FCMAT analysis concludes that SBCC is fiscally healthy, the board must address the issue of enrollment policy and provide the necessary policy direction to the administration. This will include determining the strategic mix of credit and noncredit apportionment-generating classes, including methods of enrollment efficiency and productivity. Adopting an enrollment strategy policy is critical to help the college determine its optimal size and composition, allowing administration to create and implement program, service, and staffing plans and budgets that are congruent with reasonable revenue projections that follow the board's policy direction.

Notes

1. Tentative budget presented in open session on June 9, 2016 and June 23, 2016; slide 7 of PowerPoint; Page 2 of the document.
2. Adopted budget approved on June 8, 2016; page 9 of the document.
3. Adopted budget approved on June 8, 2016; page 20 of the document.
4. Interviews conducted by FCMAT on August 25, 2016.
5. Impact of FTES and on Number of Sections Offered if Enrollments Were Limited to District Students and if Enrollments Were Restricted to California Resident Students: Fall 2015-2016 Summer Session 1; Dr. Jack Friedlander, executive vice president, July 26, 2016.
6. Assumptions Used To Develop The 5-Year Projection 2016-17 Through 2020-21, As of September 2016. FCMAT reviewed a draft document dated September 12, 2016 that was scheduled to go to the College Planning Council (CPC) before the end of September. As with any document dealing with changing assumptions and projections through a collegial consultation process, there may be changes between the preparation of this report and the presentation of the final report to the district.
7. Santa Barbara City College Long Range Fiscal Plan presented to the board of trustees April 14, 2016 Budget Planning Session; the workshop was canceled and the document was not presented to the board; the fiscal plan was provided to FCMAT by the current board president, superintendent/president (CEO) and chief business official (CBO).
8. Board Policy 6225, Principles of Budget Development.
9. Adopted budget presented in open session on August 25, 2016; Page 9 of the document.
10. October 25, 2005 memo from Frederick E. Harris, Assistant Vice Chancellor, CCCCO to all CCC Chief Executive Officers and Chief Business Officers; posted on extranet.cccco.edu.

11. CCCCO, Fiscal Data Abstract 2014-2015, Table III.2, Summary – Unrestricted General Fund Transactions, Fiscal Year 2014-15. http://extranet.cccco.edu/Portals/1/CFFP/Fiscal_Services/Standards/DataAbstracts/2014-15/Copy%20of%202015FiscalDataAbstract.pdf.

12. CCCCO, Fiscal Data Abstract 2013-2014, Table III.2, Summary – Unrestricted General Fund Transactions, Fiscal Year 2013-14. http://extranet.cccco.edu/Portals/1/CFFP/Fiscal_Services/Standards/DataAbstracts/2013-14/2014%20FiscalDataAbstract.pdf.

13. Teacher Load Units

14. Assumptions Used to Develop the 5-Year Projection 2016-17 Through 2020-21, As of September 2016. The document reviewed was a draft dated September 12, 2016 and was scheduled to go to the College Planning Council (CPC) before the end of September. As with any document dealing with ever changing assumptions and projections through a collegial consultation process it is possible that there may be changes between the preparation of this report and the presentation of the final report to the district.

15. Adopted budget presented in open session on August 25, 2016; Page #20 of the document.

16. August 29, 2016 email from Paul Jarrell to Jim Austin.

17. August 12, 2016 draft report from Z. Reisz, SBCC IARP Office. For an in-depth analysis of the two-term summer of 2015 to the one-term summer of 2014, see Evaluation of Summer 1 and 2 Sessions, Dr. Jack Friedlander, Executive Vice President, September 14, 2015.

18. Page 81 of the 2015 audit report.

19. Reporting dates for state apportionment reports (CCFS-320, CCFS-321, CCFS-320F).
    - The "first period" reports encompass data for July 1 through December 31 and are due in the chancellor's office on or before January 15.
    - The "second period" reports encompass data for July 1 through April 15 and are due in the chancellor's office on or before April 20.
    - The "annual period" reports encompass data for July 1 through June 30 and are due in the chancellor's office on or before July 15.
    - Districts must submit a fourth report, known as the "recal report" if revisions must be made to the "annual report". The "recal report" is due to the chancellor's office on or before November 1 (by October 1 for lottery attendance purposes).
    - (Reference: ECS 84500, T5 58003.4).

20. http://www.sbcc.edu/fiscalservices/files/SBCCD%20Final%20FS%206-30-15.pdf. Page 36.

21. http://www.sbcc.edu/fiscalservices/files/SBCCD%20Final%20FS%206-30-15.pdf. Page 2.

22. Email from jdzavas@pipeline.sbcc.edu September 19, 2016.

23. Spreadsheet, Salary Increases and COLA history. XLSX.

24. Emails provided to FCMAT by the CBO.

25. Among the spreadsheets that were reviewed that do not include individuals' names: SBCC Faculty Salary Study, 2013-14.xlsx; SBCC Faculty Salary Study 2013-14 D2.exsx.

26. July 14, 2016 median salary formula work group PowerPoint.

27. http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalStandardsandAccountibilityUnit/FiscalStandards/FiscalDataAbstract.aspx. 2014-15, Table V.

28 Excel spreadsheet, Expenditures 14-15 CCCCO Table V.xlsx; tab "FCMAT Percent sort." This spreadsheet uses the data from the cited Fiscal Data Abstract to calculate total compensation as a percent of total expenditures and to sort the results.

29. Excel spreadsheet, Expenditures 14-15 CCCCO Table V.xlsx; tab "FCMAT Per FTES sort." This spreadsheet uses the data from the cited Fiscal Data Abstract to calculate total compensation as a percent of total expenditures and to sort the results.

30. "Major Objects" refers to the object codes defined in the California Community College Budget and Accounting Manual, commonly referred to as the BAM. The major expenditure objects are: 10, academic salaries; 20, classified, nonacademic salaries; 30, employee benefits; 40, supplies and other small tangibles; 50, contracts and other intangible services; 60, equipment, facilities and other large capital purchases.

31. http://www.sbcc.edu/accreditation/files/ACCJC%20Santa%20Barbara%20City%20College%20Evaluation%20Visit%20Report_10_26_2015.pdf.

32. Adopted budget approved by the board in open session on September 8, 2016; Page #9 of the document.

33. http://www.sbcc.edu/fiscalservices/files/SBCCD%20Final%20FS%206-30-15.pdf. Page 2.

34. http://www.sbcc.edu/boardoftrustees/board_policies_procedures.php#6.

35. Accounting Advisory FS 07-06: Fiscal Independence: http://extranet.cccco.edu/Portals/1/CFFP/Fiscal_Services/Standards/AcctgAdvisories/fs07-06_fiscal_independence_accounting_advisory3.pdf.

36. http://www.sbcc.edu/fiscalservices/files/SBCCD%20Final%20FS%206-30-15.pdf. Pages 80 – 82.

37. http://www.sbcc.edu/measurev/.

38. Impact of FTES and on Number of Sections Offered if Enrollments Were Limited to District Students and if Enrollments Were Restricted to California Resident Students: Fall 2015-2016 Summer Session 1; Dr. Jack Friedlander, Executive Vice President, 7-26-16.

39. Santa Barbara City College Long Range Fiscal Plan Presented to the Board of Trustees April 14, 2016 Budget Planning Session (Fiscal Plan), as revised September, 2016. Note that the scheduled April 14, 2016 budget planning session was cancelled and the original April report was not distributed.

40. Assumptions Used to Develop the 5-Year Projection, 2016-17 Through 2020-21, as of September 2016; these are the assumptions that were used to update the April 24, 2016 long-range fiscal plan.

41. Interviews conducted by FCMAT August 25, 2016.