July 12, 2017

Mario Rodriguez, Vice Chancellor
California Community Colleges Chancellor's Office
1102 Q Street
Sacramento, CA 95811

Dear Vice Chancellor Rodriguez:

In February 2017, the California Community Colleges Chancellor's Office requested the Fiscal Crisis and Management Assistance Team (FCMAT) to review and provide assistance with specific operations and functions of the Victor Valley Community College District. At that time, the college was solvent, but deficit spending would cause the college to experience an estimated $2.9 million in negative financial impacts to its budget beginning in 2017-18. To assist with this, the chancellor's office requested that FCMAT provide technical assistance with the college's 2017-18 budget so that it can continue to maintain adequate reserves despite the ongoing financial impacts. In the scope of work, FCMAT agreed to perform the following:

1. Assist and advise the college in reviewing the most current multiyear financial plan (MYFP) for the current and two subsequent years, based on current economic forecasts.
2. Assist and advise the college in evaluating whether the college will be able to sustain recommended reserve levels in the current and two subsequent years and, if needed, the level of commitment that will be required to sustain the reserves.
3. Assist with developing a campus communications plan and strategy for the college regarding its budget projections (based on scope items 1 and 2).

FCMAT held an initial meeting at the college on March 14, 2017 with the vice president of administrative services and the director of budget and planning. In the meeting, college staff voiced their concerns about the budget over the next three fiscal years. Some of these concerns included the following:

1. The college will lose $1.2 million in mid-size college (i.e. 10,000 full-time equivalent students (FTES)) funding beginning in fiscal year 2017-18 since it has been unable to grow back to the 10,000 FTES level since 2011-12. The college has received stability funding since 2014-15, but eligibility will cease in 2017-18.
2. The college's guaranteed investment contract (GIC), entered into in 1994, is used to cover general fund deficits and will decrease in available amounts. Board Policy (BP) 6320a states that beginning in 2019-20, no more than 50% of the interest earned on the GIC can be used for the general fund expense budget or to cover any general fund

expense deficit. Because of this provision, this GIC funding source will drop by $1.1 million beginning in 2019-20, reducing from $2.2 million in 2018-19. In addition, the GIC has a limited life, terminating on December 1, 2024. The GIC has provided a continued level of funding that has supported the unrestricted general fund for several years.

3. The college faces an additional funding decrease since the general fund has benefited from the concurrent drawdown of approximately $4.3 million in the Public Agency Retirement Systems (PARS) pension trust in fiscal years 2016-17 and 2017-18. That revenue source will be eliminated after 2017-18.

To address these matters, FCMAT engaged in the following activities:

- Reviewed the college's website for board policies, collective bargaining agreements, prior year budgets, audit reports, CCFS-320 and CCFS-311 reports and strategic planning documents.
- Reviewed CCFS-320, CCFS-311, District Growth Rates, Apportionment, and Faculty Obligation Number reports on the CCCCO website.
- Consulted with colleagues on various matters such as efficiency, stabilization and the faculty obligation number (FON).
- Consulted with college staff by email throughout the study period on various matters concerning the most current budget projections.
- Met on campus with college staff on May 8, as well as March 14, to review the latest budget projections and related assumptions.
- Provided college staff with information concerning instructional services agreements.
- Developed and provided papers to college staff concerning community college budget committees, budget development calendars, use of budget scenarios, a "total funds analysis" projection, and the final budget proposal as tools for improving budget communications and presentations.

Additionally, FCMAT conducted a fiscal review and issued a report dated April 3, 2013, which can be found online at: http://fcmat.org/wp-content/uploads/sites/4/2014/02/VictorValleyCCDfinalreport43.pdf. That report is referred to in this document when pertinent. The scope of the previous report was far broader than the scope of the current assignment, but there was some overlap, and many prior recommendations would assist the college if implemented. Staff should consider presenting a status report to the board on what was implemented and what still needs to occur in relation to the previous report's recommendations to assist the college's progress.

Budget Communications

The administrative services unit, which includes the budget office, effectively communicates various budget matters and budget projections to many constituencies including the board, faculty and staff. For instance, the college has a budget committee; and budget presentations are regularly made to the committee as well as the board, faculty and staff, to keep them up-to-date on the status of the budget, as well as on the status, and results, of budget development for the next fiscal year.

However, administrative services should consider some modest revisions in its approach to budget communications. First, the college should reconsider its budget committee composition and process.

As an example, the vice president of administrative services does not chair or co-chair the committee, which is not typical in other community college districts. Attachment A to this report includes a more detailed narrative on this subject that was developed and provided to the vice president of administrative services and director of budget and planning. The importance of this committee cannot be overlooked. Creating a budget committee that continues to function well over time is not easy, but it can be accomplished by addressing a variety of issues. FCMAT recommends that the president and his cabinet discuss Attachment A to this letter, and with the leadership of the vice president of administrative services, proceed as appropriate with the college constituencies through established shared governance committees.

The material contained in budget presentation spreadsheets should also be streamlined. The background analysis would include the same detail as before, but the data and financial analysis would be minimized in actual presentations. Most audiences do not have a financial background, so budget presentations and discussions should focus more on the budget assumptions and their results, which should be clearly articulated and accompany every iteration of the budget projection.

Budget projections should be viewed as a trend based on certain criteria and assumptions rather than as a prediction of exact numbers, and should be updated at frequent intervals as well as when significant financial changes are made to the college's budget in current or future years. Budget assumptions drive the numbers. The projection amounts will usually change if the assumptions do so. It is imperative to identify all assumptions, including those where the college has at least some control, so it can actively participate in its budgetary future, making decisions based on the assumptions and how they affect future finances. An example of the latter would be the use of the college's one-time GIC and PARS trust funds. The college could decide to use more or less of this funding in a given year as it evaluates alternative budget scenarios for the next fiscal year.

FCMAT prepared and provided papers on a presentation methodology ("Total Available Funds Analysis") as well as input on the final budget proposal to the vice president of administrative services, which is included Attachment B to this letter. Administrative Services should take the lead in this streamlining effort, working with the college president, his cabinet and the budget committee to better communicate important information about the budget to those involved with this document as well as those who are not.

Administrative Services should compare the "Budget Development Calendar" provided to the vice president of administrative services (and included as Attachment C to this letter) with the one used by the college. While the college's calendar is considered adequate, staff should periodically review the document, ensure it is current, and make certain that it facilitates the transparency of budget development processes and communication.

With the concurrence of the college president, administrative services should develop a plan to implement changes, and ensure that those who are involved with the process recognize the importance of budget development communications. Even if college staff correctly develops a budget, these efforts will be unsuccessful if communications are poor and the budget is not well understood. Strong communication facilitates acceptance from college constituencies, allows the best ideas to be submitted for consideration, improves budget assumptions and provides assurance that the final budget links effectively with the college's strategic plan.

The Budget Projection

Administrative Services provides periodic budget projections to the board, faculty and staff. The college should consider using budget scenarios. This strategy can vary each year based on the district's circumstances. Sometimes two scenarios are sufficient, and other times, three (i.e. best, middle and worst cases) might be more appropriate. Having more than three scenarios can be confusing, and having only one does not provide the college with alternatives. A paper on the use of budget scenarios was provided to the vice president of administrative services, and can be found in Attachment D to this letter.

FCMAT recommends using two scenarios for Victor Valley College. The college is on the verge of losing $1.2 million is state funding because it falls short of the mid-size college threshold of 10,000 FTES in the 2017-18 fiscal year. The college was previously above that level, but fell below it in 2014-15. Therefore, it entered the California Community Colleges' "stability" process, where it retained state funding as though it still qualified as a mid-size college.

The stability process holds a college harmless for three years to work through its enrollment difficulties. If it restores funded FTES enrollment to the prestability level anytime during that period, its funding base is considered "restored" and it moves forward from there. If enrollment is not restored, the funding base is reduced to its new enrollment level. For Victor Valley College, 2016-17 was the last year of the hold harmless period, and it will not restore to the 10,000 FTES level since it estimates about 9,500 FTES for 2016-17. At that level, the college forgoes the $1.2 million mid-size adjustment in the following year. Further, it loses funding for 500 FTES in its base (i.e. 9,500 FTES instead of 10,000), or approximately $2.5 million; therefore, the overall revenue loss was $3.7 million at the time of FCMAT's report.

In the meantime, the latest projection for 2017-18 indicates the need to use $5.8 million in one-time funds to balance the budget ($2.3 GIC, $3.5 PARS and $0.1 other one-time). The $3.7 million in FTES funding would have solved almost two-thirds of this use of one-time funds, and FTES funding is ongoing base revenue to which COLA, if funded, is also applied.

Using two budget scenarios would allow the college to choose whether it wants to qualify as a small or mid-size college in the future. This is not an easy decision. The FTES decrease raises the fundamental question of whether Victor Valley College can consider itself a mid-size college in the near term. It has only qualified as a mid-size college twice during the past decade and only by using a summer rollback strategy. Even then, it barely qualified with 10,002 FTES and 10,006 FTES in 2009-10 and 2010-11, respectively.

This is a strategic issue requiring significant analysis and deliberation. The summer rollback strategy is useful in the short-term but not over time for two reasons. First, as a general principle, all of summer should be reported in the same fiscal year. To do otherwise distorts reality and effectively consists of a borrowing from the future, which can have negative consequences if continued.

Second, recent discussions at the state level have focused on eliminating this strategy. Although the pressure for change has decreased because of recent enrollment issues across the CCC, the fact that this discussion has occurred should be a warning not to depend consistently on this strategy. Instead, it should be used only in certain situations, such as to capture excess growth funding to improve a college's funding base.

Third, no college completely controls its future. The summer rollback strategy can seem successful in the short-term, but not over several years. Yet the college has continued to use the summer rollback strategy for about a decade or longer. This strategy, initiated after the Great Recession, brought the college to the 10,000 FTES level in 2009-10 and 2010-11, but is now counterproductive.

From summer 2016 to the 2015-16 fiscal year, 337 FTES were rolled back. Although the college is attempting to discontinue its dependency on this FTES reporting strategy, the restoration opportunity has been lost. If it had reported the 337 FTES in fiscal year 2016-17 instead of 2015-16, the college would have been close to the mid-size level, perhaps near enough to reach 10,000 FTES with some extra effort.

The previous FCMAT report (2013) also recommended to think strategically about enrollments when it suggested that the college, "Routinely identify and evaluate the local factors that affect the demand for curriculum and classes, and adjust district course offerings and scheduling accordingly." It is unclear whether the college has engaged in such a process in a meaningful way since that report was issued, perhaps because there has been significant turnover in the leadership of the institution since then.

Given the above, the college should engage in a strategic discussion about the size of the institution. In doing so, it should also consider its online instructional effort, which apparently is approximately 26% of FTES. That number is high, and the college needs to ensure that its online efforts are in accordance with distance education regulations. The college needs to understand its market, the participation rate within its service area and the demographic and population projections.

It then needs to assess its enrollment management efforts to ensure that it works on all facets of this issue, from generating a student inquiry to certificate and degree completion. If the college plans to reach 10,000 FTES level in the near term, it should ensure that it can do so without utilizing strategies such as the summer rollback. The offices of the vice presidents of instruction/student services and administrative services and the institutional research staff should also meet regularly on enrollment and efficiency matters so that they work together as the college makes important sizing decisions. It is critical to generate 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 effort. Such a policy is important in helping the college determine its optimal size and composition as it eliminates deficit spending and establishes its recommended reserve levels to maintain financial solvency and stability.

Another concern is the use of one-time funding to balance the budget. In the college's multiyear financial projection, approximately $4.1 million in one-time funding, or 6.7% of the revenue budget, is included in the 2016-17 projected budget. Without those one-time funds, the college's ending balance would only be about $1.1 million instead of the projected $5.2 million.

In the 2017-18 projection, $5.8 million in one-time monies are projected, or 9.7% of the revenue budget. Without those one-time monies, the college would have a negative fund balance absent any other remedial action.

The outlook for the 2017-18 year has somewhat improved based on the governor's May Revise and actions in the Assembly and Senate as well as the Conference Committee. This is because of $183 million in additional base funding for the community college system. FCMAT estimates that Victor Valley will receive approximately $1.5 million from this funding. This amount, if devoted solely to improvement in the revenue budget (and not to increase costs), could improve the 2017-18 outlook although it is not a complete solution.

The college only has assurance that $2.2 million in GIC funding will be available in 2018-19. That amount will drop to $1.1 million in 2019-20 according to BP 6320a, as mentioned earlier. The GIC will terminate on December 1, 2024, so it is being treated here as one-time income.

Estimates at the time of FCMAT's fieldwork indicated that the PARS trust, which was established in 2015-16 at $4.3 million, would have been fully utilized in support of the budget during the 2016-17 and 2017-18 fiscal years and thus will no longer be available to the college. A third one-time revenue component, entitled "One-Time Revenue," is projected annually at $111,000 for the 2017-18 through 2019-20 period. That revenue item must be considered speculative, and the college should consider deleting that item in its projections.

Another concern with the projection relates to Health and Welfare benefits and the employer share of STRS and PERS pension contributions. These problems affect California's community colleges and governmental entities since they consume an ever-increasing share of the budget. The staff has accommodated these factors in its budget projection using the available information. However, the cost assumptions should be revisited each time the MYFP projections are made to ensure that any new information is included in the estimates.

Finally, the projections do not include cost estimates for collective bargaining agreements with faculty and staff after the 2016-17 fiscal year. While projections for future years should not reflect compensation costs unless agreements have been reached on those specific years, staff should ensure that these expenses are entered into all projections once agreements are reached. In the meantime, the assumptions underlying the projections should note that these costs are not included so all future decisions can take this information into consideration.

Reserve Levels

The college's reserve levels are at risk, but this is not a new problem for Victor Valley College. In its 2013 report, FCMAT noted that the college had deficit spending of $2.4 million in 2011-12 and that "projections indicate deficit spending in the budget year and two subsequent fiscal years." FCMAT further observed that "Given the estimated deficit spending in each year of the district's financial projections, the district is projected to exhaust its general fund reserves early in 2014-15."

That prediction did not materialize, but it was largely avoided only by using substantial amounts of one-time funding and drawing down reserves. This use of one-time monies only transferred the deficit from one year to the next based on the college's current financial position.

The most recent projection includes deficit spending of roughly $5.8 million for 2017-18 if one-time revenues are excluded. Similarly, the deficit would be $4.1 million for 2016-17 without one-time funding support. Projections show 2018-19 and 2019-20 with deficits of $2.8 million and $2.6 respectively. These deficits include the use of one-time monies each year and exclude increases in salary plus the related mandated benefits attached. Furthermore, based on current spending levels, the reserves and the ending fund balance are drawn down to a point where they are negative in 2020.

Increasing enrollment is critical. Increasing above the 10,000 FTES level would yield approximately $3.7 million in revenue. Coupled with the estimated 2017-18 base adjustment of $1.5 million, the college would gain a combined $5.2 million that could be devoted solely to deficit reduction. Much work remains to be done on enrollment since attaining an increase must satisfy two criteria. First, 10,000+ FTES must be sustainable over time. Second, reaching that level must be accomplished without use of the summer rollback strategy. As part of this process, the college should engage in strategic planning, which would include a strategic financial plan. However, if the college decides it cannot become a mid-size institution in the immediate term, it will only have one choice: To reduce its budget, probably by approximately 10%.

The college should consider obtaining external assistance in class schedule management and enrollment management to review its scheduling, enrollment management and enrollment reporting practices. As a part of this effort, the college may also acquire specialized software for compiling and reporting related data. FCMAT noted in the 2013 report that the FTES/FTEF ratio had decreased in 2010 and again in 2011. FCMAT observed then that such a decline "will likely correspond to a higher cost of instruction per student" and concluded that improvements in instructional efficiency seemed in order. It appears that improvement has not been made since the 2013 FCMAT report. FCMAT estimates that the college could operate at approximately 77% of the system wide compressed calendar funding standard of 595 weekly student contact hours (WSCH). If that were the case, the college would incur a higher cost of instruction than anticipated by the state's funding standard. To do that, resources must be diverted from the noninstructional budget to instruction, so that the overall budget fits within available state funding. It is therefore quite likely that this issue is a significant contributor to the college's operating deficit.

The board should consider changing its policy on the reserve. Board Policy (BP 6200) requires a minimum 5% reserve, but does not specify the base to which this percentage should apply. The board should apply the percentage to total available funds (i.e. the beginning fund balance plus revenues) since it the most conservative base given available options. Additionally, the board should consider changing the 5% to at least 7%. The CCCCO specifies that a district should end the year with a reserve of 5%. To ensure that at least that percentage remains in reserve at year-end, 7% should be the target established at the beginning of the year based on the college's history of deficit spending.

Deficit spending must stop. Without a plan to change current spending patterns and avoid the impact of operating deficits on the fund balance, reserve levels will decline to unhealthy amounts because of the many uncontrollable economic factors that local educational agencies (LEAs) face, in addition to the college's deficit spending. It should also be noted that action would be best if undertaken before the next recession, as a recession could be disruptive to the college's efforts. Many have indicated that the possibility of an economic downturn in the near future is high, and these downturns had a major negative impact on California community college districts in the past. While state revenues decrease, enrollments and the unemployment rate increase, the net result being less overall funding combined with a greater demand for services. The situation has historically led to higher but unfunded district FTES, and an inadequate level of the unrestricted reserves necessary to absorb a multiyear recessionary decline in funding.

The college should increase communication and budget awareness, determine its "optimum size", eliminate deficit spending, and maintain budgets that are congruent with the board's enrollment policy decisions. The college's fiscal solvency is at risk based on its reliance on one-time funding and decreased reserves.

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

Sincerely,

Michelle Giacomini

FCMAT Chief Management Analyst

ATTACHMENT A

THE BUDGET DEVELOPMENT COMMITTEE

A community college/district needs a budget development committee. Its size, composition, role and function may vary depending on the number of sites, college/site size, culture, history and location, organization structure and other factors, but the college should have one… and not just because its mere existence might be pleasing to the eyes of accreditors. Rather, a college/district budget development committee is essential to assure the transparency of budget decision making and the integrity of the institution about the utilization of those resources made available to it.

How does it do this? The budget development committee:

1. Facilitates assurance that budget and planning are indeed linked through the review and discussion of budget objectives and tactics and their relationship to college goals and strategic initiatives. This also calls for the establishment of a link between the budget development committee and the college's planning council or strategic planning committee.
2. Reviews and discusses the annual budget calendar and advises constituencies as appropriate.
3. Provides for constituent review and discussion of budget-related policies, procedures and practices.
4. Receives information pertinent to the college budget, especially budget development and college budget status, and members share same with their respective constituencies.
5. Reviews and discusses the budget reconciliation a n d post-mortem implications of budget news" can also be discussed and evaluated
6. Provides a forum akin to a think tank regarding the above enumerated matters. In this sense, the institution benefits by bringing together a group composed of members with widely varying educational and experiential backgrounds, but with a singular focus, that being the institution and the students it serves. This is especially important in the development of budget assumptions, scenarios, alternative budget strategies and budget projections. Collectively, the budget development committee can be considered fertile ground in the evaluation of alternatives and the development of the budget proposal.

For a budget development committee to be effective, the college should set forth in writing a charter regarding the role, scope and purpose(s) of the committee. As with the committee itself, the charter may vary from one college to another for the reasons noted in the first paragraph. However, at minimum, it should address three essential elements.

The first element involves defining the role, scope and purpose of the committee. What is it to do? What isn't it to do? How does it fit within the college's organizational/committee structure? These are the three major questions to address, but they lead to others. How should it relate to

other functional and shared governance committees? What shouldn't the committee do? What outputs are desired? To whom would the committee report? Is it merely advisory, or should it make recommendations? This is a bit like the case of peeling back the onion in coming up with a charter's language.

Some colleges have gone beyond budget and created a committee that includes both budget development and planning, or budget and policy development or even budget, planning and policy development. Each institution must find its own way here, but one thing is critical. Language. LANGUAGE MATTERS. The charter should be clear and concise, especially about the three questions noted at the beginning of the preceding paragraph. One also must keep human nature in mind here. The language should allow for the redirection of those who stray off the beaten path. The budget committee is not a forum for gadflies of the negative variety, overt parochialists, meeting dominators, naysayers and diverters of attention. This doesn't mean that the budget development committee charter should be locked in concrete; it does mean, however, that the committee must be allowed to focus on performing its crucial role within the institution. Change is inevitable, especially as the college evolves. But that is the case for all college committees, and there should be an established policy and/or procedure for the consideration of change regardless of which committee evaluated.

As a final note, here is some wisdom from experience. <u>Give the committee something important to do.</u> For example, one way to proceed may be by allowing committee recommendations to be brought forward in the institutional decision-making process. Whatever it is, it should be substantive. Be careful here, though. The committee doesn't run the institution, nor should the budget, and it should never begin to think it makes decisions. However, a committee that does little other than meet and receive and discuss information can become a frustration to the membership, and eventually the constituent groups themselves. Another idea in this regard, and one the writer personally witnessed and found impressive, would be to provide for committee participation in the development of budget presentations and to be included in the presentations to other institutional groups, and even to the Board itself.

The second essential element is committee composition. Like everything else regarding the establishment of a budget committee, committee composition will likewise vary by college. Further, as a particular college evolves and/or as the external environment changes, so might the budget committee composition need to be changed.

In making a determination, here, the college must try to blend institutional functions, organizational fit and internal constituencies, a situation that can become even more complex if the college consists of more than one site. Based on this writer's experience, committee size must be kept in mind. There is no magic number in terms of membership for the committee as a whole nor for the number of representatives from each function/constituency. Organizational structure and the budget committee charter will also be pivotal in this determination.

In any event, a college should avoid a committee that is too large. Membership of 10-12 is probably a minimum and may suffice, especially is smaller institutions. Once membership is in the neighborhood of 15, caution is urged. That's not a bad number, but going beyond it must be considered very carefully. The committee has to be sufficiently large to fulfill its purpose, but not so large that meaningful deliberation cannot occur.

To close on this point, there are four main constituencies that would be represented on a college budget committee, the faculty, the staff, administrators and students. Sometimes these groups are broken into different groupings, such as the senate and the collective bargaining unit in the case of faculty and classified staff and middle management and leadership in the case of administrators. Again, choices on how to proceed are left to the particular college/district. But a word of caution, here, is in order. Don't exclude an internal group deemed meaningful to the institution from representation on the committee if possible.

Similarly, one has a variety of major functions that must be considered. They include instruction, student services, information technology, facilities, the library/learning resources center and administration. As with constituencies, it is left to the particular college to assure that all functions are in some way represented.

The third essential element involves the rules of the game. There are a number of determinations to be made here, but it is important to seriously consider them before proceeding with the establishment of a budget development committee. They include:

1. Appointments. Once the college has settled on committee composition, then it must determine who will make appointments to the committee. Obviously, there are many paths that can be followed.

2. Term Length. This one is more complicated than one might think at first glance. What happens if a member leaves the committee prior to fulfilling the term? Will the replacement, if there is one, merely finish the term or start a new a brand-new term? Should staggered terms be deployed to ensure a mix of experienced and inexperienced members on the budget committee? And should there be a limit to the number of terms or years a member can serve on the committee?

3. Removal. Should there be a process for removing a member, and if so, for what "sins" might one be removed? This writer has seen this kind of situation before. It's awkward, and it's rare, but one should be prepared in advance as to how the college would proceed if complaints were brought forward.

4. Committee Chair. This is typically the Chief Business Officer, although sometimes one sees rotating chairs or co-chairs. It is suggested that the Chief Business Officer (CBO) be designated as Chair. This individual is hired to be the institution's most conversant person regarding the subject matter of this committee, the one who is to live on planet Budget and translate for and protect the interests of the institution. As Dr. Spock would say, "It's illogical" to choose anyone else. As an aside, if the institution is large enough to have a budget staffer, then it would be appropriate for that person to serve as staff to the committee…but not as a member.

5. Committee Actions. Over and above what actions a budget development committee can take, it is important to determine how such an action would occur. Simply stated, would one proceed via consensus or voting? In an academic environment, this writer would strongly encourage the former, but there may be reasons to do the latter. Again, each institution is different and must choose its own way on this one.

6. Documentation. Committee agendas and minutes are a must. If possible, they should also be posted on a budget development website, as should a document on the history, charter and membership of the committee. Such a website is not unlike a tank of water. In this instance, one (a committee member) can take the horse (the member's constituency group) to the tank (the website), and the horse can drink to its heart's content…or not. But no one can say there isn't any water. At this point, it should also be observed that, if resources permit, the CBO's secretary should also serve as staff to the committee for purposes such as taking minutes, distributing informational materials and updating the website.

7. The Committee as a Team. It is imperative that the budget development committee function like a team. The members will bring a variety of skill sets, differing backgrounds, various personalities and different perspectives to the game, just like any team. What separates successful teams from the rest is the degree of teamwork and selflessness that's involved (think San Antonio Spurs in terms of success in this regard). What's required here is mutual respect. Members may be expert in their own fields of study or in the workplace, and at minimum, they likely will at least know more about their respective functional areas than anyone else in the room. That should be respected. Others should listen to what they have to say, truly hear, as getting all perspectives is important for budgetary success. Passionate debate is fine, and sometimes a good thing, but heated debate where anger or name-calling is involved must be off limits. Debate cannot ever become personal. It can be a fine line between passionate and heated debate, and the Chair and membership must be alert to the dangers of crossing that line. And members must always remember that being expert in their respective areas doesn't mean they're expert in all areas of institutional operations. All members need to remember their limitations. Again, members must respect their colleagues on the committee. They must find a way to work together for the good of the institution. Again, they must be a team, a winning one.

8. Training. Training should be a prerequisite for participating on the budget development committee. That includes the Chief Business Officer, who should also receive training on how to best conduct a meeting. The CBO must also be expert in listening skills, as the CBO must be the best in the room at that, if the committee is to be productive and remain on course. Further, a training manual should be developed to facilitate this training and to serve as a resource document for committee members. The training would focus on the charter, the "rules of the game," how to avoid the Trivial Trail, going too far into the weeds, the danger to the institution of taking a first step down the Slippery Slope, and most importantly, the roles, responsibilities and limitations of service as committee members. Regarding their responsibilities, it is important for them to recognize that the buck stops with them. They're in the middle of the feedback loop between the committee and constituent groups. It's a serious thing if that loop is broken, and there could be severe consequences.

In sum, there are many considerations that must be considered if a college is to have a successful budget committee. That is as it should be, because this committee is exceedingly important in ensuring that the college's strategic initiatives are implemented and its strategic intentions are realized.

ATTACHMENT B

TOTAL AVAILABLE FUNDS (TAF) ANALYSIS

In a sense, we're starting here with the last coming first. It's the last, as it is derivative of the other parts of a Budget Projection, namely revenues, expenditures and assumptions. However, the Total Available Funds Analysis (TAF) is the first because it alone provides a quick snapshot of the District's budget at any stage of budget development. With just a handful of key numbers, all on one page, it communicates to all the District's current budget status, hence providing a broad context for budget deliberations. With the virtue of simplicity, it also provides a way to communicate important information about the budget…in particular the unrestricted general fund budget…to non-budgeteers as well as those more conversant with the budgetary arts. It looks like this:

TOTAL AVAILABLE FUNDS

Beginning Balance	$10,000,000
Add: Projected Revenues	90,000,000
Total Available Funds	$100,000,000
Less: Fund Balance Target	12,000,000
Amount Available for Spending	$88,000,000
Projected Budget Base	85,000,000
Projected Surplus/(Shortfall)	$3,000,000

Obviously, the above numbers are hypothetical. However, if they were real, then the District would have to decide whether to spend the additional $3 million, which it could do, or add it to reserves, or perhaps do a little of both. There are many factors that would go into that consideration. But what if there was a shortfall of $3 million rather that a surplus? In that instance, the District would have to determine where, when and how it would spend less. To go below $0 would, by definition, put the college in a deficit position, something to be avoided like the plague, as it would bring about severe consequences. (Note: It is helpful if the District has a Board Policy stipulating that a deficit spending budget cannot be adopted.)

Presentation of an initial TAF projection is recommended for January after the Governor's Budget has been released and its implications digested.   This projection then tells the reader, simply and quickly, whether the District has any budget flexibility, as well as the extent thereof, as it considers the following fiscal year (i.e. the budget year). The greater a positive number, the more flexibility the District has. Likewise, the greater a negative number, the more serious the District's budget situation…but at least now the District and all its constituencies have been warned, at a relatively early point in the budget development process, that a fiscal storm lies on the immediate horizon. *

Finally, a few observations merit note. First, these numbers will change throughout the budget development cycle as more of the unknown becomes known. This fact…the bane of budgeteers…must be oft-repeated throughout that cycle. **THE NUMBERS WILL CHANGE!!** In fact, even in the final budget, all numbers are essentially just the latest, greatest estimates that one can provide.

Second, the numbers showing in this analysis are simply numbers. What do I mean by that? Well, it's not the numbers that are important, and unfortunately, one frequently finds oneself engaged in great, and sometimes heated, debates about a given number. In reality, however, any number is merely the product of the assumptions which underlie it. This fact also merits periodic mention.

The assumptions are where the real action lies, and it is therefore imperative that they be set forth clearly and succinctly. If they change, the numbers change. If folks understand the assumptions, there should be little or no quibbling about a number. If an institution has the wherewithal to change a particular assumption to its advantage, then, it should do so. The advantage of the TAF is that, as in the case of a deficit, the District now has been advised, relatively early in the budget game, that action is required ASAP.

Third, a final advantage of the TAF is that it recognizes upfront that the future of the institution must be protected at all cost. It does this by showing that the first allocation from "Total Available Funds" is the establishment of the "Fund Balance Target." That number is equal to the reserve requirement established, hopefully, by Board Policy. This allocation must come before consideration of spending matters, if a District is serious about maintaining a strong fiscal position.

*It merits noting, here, that if a district's budget is negatively out of balance (i.e. expenditures exceeding revenues) by 10% or more, then the district finds itself in a serious financial situation. How serious will depend on other factors at the particular district. Despite other factors, though, 10% is effectively a red line one does not wish to cross.

ATTACHMENT C

BUDGET DEVELOPMENT CALENDAR

Current Fiscal Year

I. November/December: Draft initial budget projection for the next budget year.

II. January:

A. Governor's Initial (January) Budget Proposal is released on or about January 10.

B. Revise and release initial budget projection and budget assumptions to college community (Iteration 1).

C. Develop and release Budget Development Calendar (broad form).

D. Board approves nonresident tuition rate.

III. February:

A. First Principal Apportionment (P1) Report is released by the State Chancellor's Office.

B. Adjust initial projection for budget year as necessitated by P1.

IV. March/April:

A. Develop and release "nuts and bolts" budget development calendar, including year-end closing instructions, to business office staff and others as appropriate.

B. Update and release revised budget projection(s) as necessary.

V. May:

A. Governor's "May Revise" Budget Proposal is released.

B. Update and release Budget projection (Iteration 2).

C. Develop Tentative Budget Proposal.

D. The State Chancellor's Office issues information relative to the annual Gann Limit calculation.

VI. June:

A. State Budget is enacted (hopefully).

B. The Second Principal Apportionment (P2) Report is released by the State Chancellor's Office.

C. Tentative Budget Proposal for the coming fiscal year, and the Gann Limit calculation per Government Code Section 7910, are presented to the Board of Trustees.

D. The budget projection is updated and released (Iteration 3).

Budget Fiscal Year

VII. July/August:

A. Year-end closing.

B. State Budget Workshop is held, and the Advance Apportionment is released by the State Chancellor's Office.

C. Final budget projection is prepared and released (Iteration 4).

D. The Final Budget Proposal is prepared.

VIII. September: The Final Budget Proposal must be presented to the Board of Trustees on or before September 15.

IX. October: The Budget Reconciliation, Budget Post-Mortem and "311" reports are presented.

X. November: It begins…again.

*This calendar outlines key events (i.e. broad form) that should occur as a budget is developed. There is no one "right" calendar. Each community college district must find its own way, as each has its own unique mix of players, processes, culture, history, and etcetera. Thus, a particular district may have a more abbreviated or more detailed "broad form" Budget Development Calendar. Additionally, although not noted in the above outline, public notice, review and hearing dates are statutorily mandated and should be referenced in the Calendar.

ATTACHMENT D

BUDGET SCENARIOS

Budget scenarios offer a useful tool in budget development. By the term "budget scenarios," it is not meant that one should simply provide various scenarios based on different assumptions for the forthcoming fiscal year (i.e. the budget year). Doing that is all well and good, and it is better to at least do that than to do nothing at all. At least one is considering the various ways in which the budget year might play out.

But what about the future? Granted, it is difficult to see very far ahead in this era of rapid technological change, global economic instability, wild and crazy politics, etcetera, but that doesn't suggest that one should not look ahead at all. Thus, it is recommended that budget scenarios be done not only for the coming budget year, but also extended to the succeeding two fiscal years as well. Doing so will provide a better context for budget planning relative to the coming fiscal year. It also will help a district, in tough economic times, to think about whether it is in a short-term or multi-year downturn. Having some sense of this is an imperative at such times, since the underlying nature of the downturn must be understood.

To illustrate this mode of analysis, consider the example of Riverside CCD. Riverside adopted the use of budget scenarios in the early 1990s, which was a difficult recessionary time in California. In considering the budget for the 1993-94 fiscal year, the District was confronted with a deteriorating financial situation, and one which appeared to be multiyear in duration. So, the District was confronted with retrenchment in terms of service along with corresponding budget cuts. It had to try to figure out the best mix of cutting/retrenchment, which is an entirely different animal in a multiyear context than it is for the more typical one or two-year financial downturn with which Californians were familiar.

The use of scenarios was pivotal in determining the right kinds of cut to make. It allowed the District to look at things a bit differently than would otherwise have been the case. As one example, through this mode of analysis, the District, in analyzing the 1993-94 budget year, identified ways in which the unrestricted general fund had been subsidizing other activities of the District. Those subsidies were carefully scrutinized and eventually eliminated. This yielded budget savings while concurrently reducing the amount of retrenchment that would otherwise have occurred.

Additionally, by taking a multiyear approach to the scenarios, the District identified a significant budget issue that was going to arise in a couple of fiscal years. The analysis brought to the fore the fact that new facilities were coming on line in 1995-96, something everyone knew. However, because of the scenario analysis, District decision makers were confronted with the very real possibility that the funding, which had been assumed for the operation and maintenance of said facilities, was not likely to be forthcoming. Thus, the Board directed the CEO and CBO to initiate efforts to remedy this problem.

Fortunately, the District had two years with which to work, as efforts in the first year bore no fruit. In year two, however, the District changed its strategy and was successful in securing what was termed “new center” funding just in time to open the facilities in fiscal ‘96. In fact, in the subsequent year, with a vastly improved State funding situation, the District, as well as other CCDs with new centers, were blessed with significant growth funding which allowed all to move forward with confidence that continued funding would be forthcoming in the future for their new center facilities and the increased enrollments associated therewith.

This illustration suggests the efficacy of introducing budget scenarios into the budget development process. It can significantly improve the link between budget development, the tactical side, and institutional planning, the strategic side. Does it take more time to engage in this mode of analysis? The answer is yes, but it need not be burdensome. The analysis should be conducted at a fairly high level of aggregation (e.g. a “Total Available Funds Analysis”) and focused on those key variables that are at play over the planning time horizon.