

Correctly Sizing a Community College District's Management Structure and Staffing

With much uncertainty around current and subsequent year planning, all California community college districts should continue to update their budgets and multiyear financial projections in the coming months. Many districts will need to make difficult decisions to balance the budget and, in some cases, to remain solvent.

This fiscal alert discusses factors to consider and recommended approaches to use when determining if a community college district's current management structure and staffing are appropriate.

The majority of funding for California community colleges is calculated based on the number of full-time equivalent students. For this calculation, 525 student contact hours equals one full-time equivalent student (FTES). This number of student contact hours is also used to calculate the efficiency of a course schedule. For districts that follow a compressed calendar, the efficiency expectations are increased to as high as 595 student contact hours, depending on the district's term length multiplier.

California Community College Efficiency Standard

To achieve course schedule efficiency, each full-time classroom teacher should teach the equivalent of five three-unit courses (54 hours each) in a 17.5-week semester, with each course section having 35 students.

The breakdown of the efficiency standard is detailed further below:

35 students in class 15 hours per week = 525 weekly student contact hours (WSCH)
525 WSCH x 17.5 weeks = 9,188 student contact hours (SCH) per semester
9,188 SCH / 525 = 17.5 full-time equivalent students (FTES) per semester
17.5 FTES x 2 semesters = 35 FTES (on average, each teaching faculty member should have a base teaching load of 35 FTES per year)
35 FTES x approximately \$5,000 (Student Centered Funding Formula base revenue per FTES) = \$175,000
\$175,000 divided by 2 (50% law) = \$87,500
\$87,500 should be used in the classroom for salaries, benefits, retirement, etc.
\$87,500 should be used for other expenses to properly manage district operations

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Four Operational Standards

Following the four operational standards below will help a community college district ensure that its unrestricted general fund will be in balance and that funds will be available for staffing and operational needs districtwide.

1. **Enrollment.**

Enrollment in academic programs should determine the staffing needed. If course offerings do not meet the efficiency standard provided above, finances will be out of balance and will erode the budgets for staff, management, physical plant, and operations.

2. **Ongoing Revenue.**

The average district needs to allocate at least 15% of all ongoing revenues to supplies, materials, post-retirement obligations, capital outlay and maintaining the full operation of the district. Therefore, no more than 85% of ongoing revenues should be used for salaries and benefits districtwide.

3. **Fifty Percent Law.**

The district's current expense of education needs to comply with the 50% law, as defined in Education Code Section 84362 and California Code of Regulations (CCR) Section 59204 and following. The law requires that at least 50% of the current expense of education be used to pay for salaries and benefits of classroom instructors. The intent of the statute is to limit class sizes and contain increases in administrative and noninstructional costs. Respecting a community college district's need to spend the remaining 50% on all other expenses is vital because if it fails to do so it will not be able to adequately maintain its physical plant or fund local student success and support initiatives.

4. **Faculty Obligation Number.**

The district must maintain its faculty obligation number, in accordance with Education Code Section 87482.6 and CCR Title 5 Section 51025. This is the number of full-time faculty a district is required to employ each fall, adjusted for the lower of a) projected fundable growth at the time of budget enactment (known as "at advance"), or b) the actual percentage change in funded credit FTES from the prior year (at second interim). Maintaining a faculty obligation number so it stays within two to three percent of the approved amount meets this standard. A district that has far more faculty than its published faculty obligation number is putting enormous strain on its fiscal viability because it is spending much more on faculty than required, leaving fewer resources for operational needs and other priorities.

Following these four standards helps ensure that funds will be available for staffing and operational needs districtwide. If any of these standards are not followed, either a district's budget or its overall service to students will be out of balance. Keeping the budget in balance allows a district to pay for all operational expenses and have resources available for innovative programs and to meet the needs of the community.

Staffing Needs

If a district follows the four operational standards above but continues to deficit spend, a focused review of nonacademic areas of the budget is needed. Each nonacademic department's budget and staffing should be compared to those of similar districts. Each college in the California community college system is unique because each serves a different population with slightly different needs. However, many California community college districts have similarities to one another, including the fact that all are part of the same statewide system and are subject to the same Government Code, Education Code, Title 5, funding formula, and other requirements. Thus, multiple community college districts can be selected for comparison based on similarities in size, programs, services, and student demographics.

The goal of a comparison of districts is to identify areas of uniqueness, meaning areas in which a district is significantly above or below the average for the comparison group. All districts provide similar services, but not all should be expected to spend funds in exactly the same way because each may emphasize different institutional priorities. Rather, one should seek to understand the degree and level of resources a district commits to each specific priority, ensure that this level of commitment is the district's intent, and gain a true understanding of where the district spends more or less than its counterparts. Many times, the fiscal impact of unique programs and services remains unrecognized over time, causing strain on the ending fund balance.

Districts should prepare an analysis that simulates the district following the four standards. This enables a district to easily identify the fiscal resources available for staffing and operational needs.

Once the simulation is done, if a district has staffing levels that are higher than the comparison group districts, the district should evaluate its staffing levels using a program review and the budget development process to ensure institutional sustainability, fiscal solvency and structural stability. Allowing higher than necessary staffing levels to continue will place a significant fiscal strain on a district and can reduce its ability to serve students. If current staffing-related expenses align with revenues once simulations are completed, a district should focus on course schedule efficiency because the course schedule isn't producing the revenue it needs to pay for all services. An inefficient course schedule can occur when a district has more faculty members than should be needed to produce its number of FTES.

Other areas of uniqueness may be identified when comparing similar districts, including how well a district is using technology; employee turnover in key positions; size, age and location of facilities; the leveraging of one-time bond funds to offset ongoing expenses; and duplication of efforts. It is also possible that a district may have excessive debt, high levels of faculty release time, or salaries and benefits that have become out of alignment with comparable labor costs (contributing to spending more than 85% on salary-related items as discussed above in the operational standards). The objective is to identify areas of uniqueness, discuss the intent and purpose of each, and finally accept or modify staffing needs based on what can be afforded and what the district's institutional priorities include. In some cases a district may conclude that the higher costs are warranted; however, it should recognize when doing so that this means fewer resources for other activities.

When deficit spending exists, even districts with large fund balances and significant reserves face fiscal uncertainty if a plan to eliminate the deficit spending is not in place. Without a sound fiscal stabilization plan to stop using the fund balance to offset excessive ongoing spending, reserves can decline to unhealthy levels, especially when economic factors outside of a district's control are considered. In the past, economic downturns have had major impacts on California community college districts. Typically, when the economy sours, enrollment increases as the unemployment rate increases. The net result has been less overall funding and a greater demand for services.

The time to correctly size community college districts is now. Using the California community college system standards, making data-driven decisions, and creating and executing a purposeful plan for solvency can help districts eliminate deficit spending.

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