FCMAT

West Valley - Mission Community College District

Fiscal Review

November 22, 2006

Fiscal Crisis & Management Assistance Team

Administrative Agent
Larry E. Reider
Kern County
Superintendent of Schools

Chief Executive Officer
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November 22, 2006

Stan Arterberry, Chancellor
West Valley-Mission Community College District
14000 Fruitvale Avenue
Saratoga, CA 95070-5698

Dear Chancellor Arterberry,

In August 2006, the West Valley-Mission Community College District and the Fiscal Crisis and Management Assistance Team entered into a study agreement to provide a fiscal review of the district. Specifically, the agreement asked FCMAT to:

1. Conduct an analysis (including the processes and procedures used to develop the budget) of the district's annual budget and prepare a multiyear financial forecast. This analysis should include the following:
   - Review the district for effective use of resource management.
   - Evaluate the budget decision-making/management process.
   - Prioritization of resources.

2. Complete a Fiscal Health Analysis of the district using the California Community Colleges Sound Fiscal Management Self-Assessment Checklist to determine the district's current level of financial risk.
   - Review of the financial measurement system (actual to budget comparison).
   - Review of the accountability system (enforcement of processes).
   - Review Fund 17.

3. Review parameters of the 50% law as it relates to:
   - Procedures regarding entrepreneurial activities (Fund 17).
   - Lottery.

4. Explore best practices for a board of trustees in fiscal management.

5. Review the district allocation of resources model.

The attached final report contains the study team's findings and recommendations.

We appreciate the opportunity to serve you and we extend our thanks to all the staff of the West Valley-Mission Community College District.

Sincerely,

Joel D. Montero
Chief Executive Officer

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Foreword

FCMAT Background

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

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

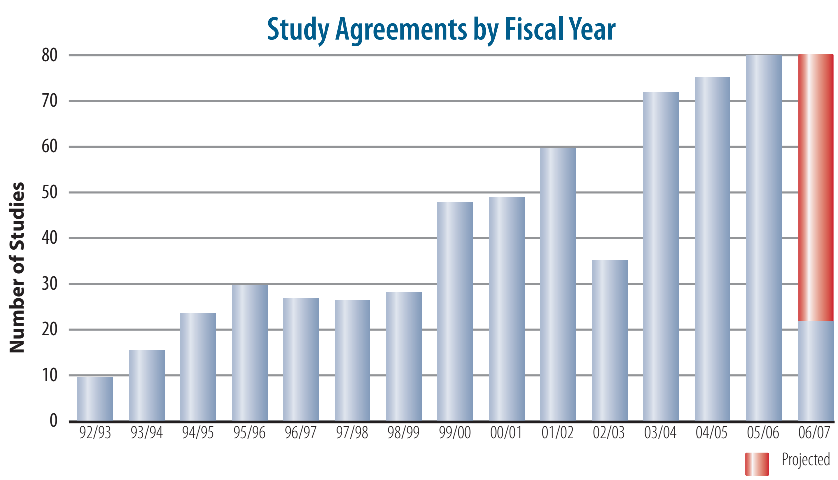
Since 1992, FCMAT has been engaged to perform more than 600 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Total Number of Studies 604
Total Number of Districts in CA.......... 982

Management Assistance	555	(91.89%)
Fiscal Crisis/Emergency	42	(6.95%)
Emergency Loan	7	(1.16%)

Note: Some districts had multiple studies

(Rev. 9/21/06)



Introduction

Background

West Valley-Mission Community College District is located in Saratoga, California and consists of West Valley College in Saratoga and Mission College in Santa Clara. As of spring 2006, the district's two campuses serve a total of approximately 22,930 students from Saratoga, Santa Clara and surrounding communities.

Study Guidelines

In June 2006 the West Valley-Mission Community College District contacted the Fiscal Crisis and Management Assistance Team to request a fiscal review of the district. A FCMAT study team visited the district on August 21-25, 2006 to conduct interviews, collect data and review documents. This report is the result of those activities and is divided into the following sections:

I. Preface
II. Executive Summary
III. Leadership and Governance
IV. Budgetary Practices
V. Multiyear Financial Projections
VI. Organizational Issues
VII Allocation Model
VIII. The 50% Law and Calculation
IX. Fiscal Health Risk Analysis

Study Team

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Preface

On September 28, 2005, Governor Schwarzenegger signed into law Assembly Bill 1366 (Lieber, D-Mountain View), which enhances fiscal accountability in higher education by authorizing the Board of Governors of the California Community Colleges or a community college district to request the Fiscal Crisis and Management Assistance Team (FCMAT) to assist a community college in need of fiscal management review. While no prior studies were sanctioned under this new law, AB 1366 expanded FCMAT's role in assisting the California Community College Districts effective January 1, 2006.

Executive Summary

Interviews conducted by FCMAT indicated that the board of trustees may be overly involved in the daily administrative operations of the district. FCMAT did not observe this tendency during interviews with board members, and FCMAT's review of board policy and other documents did not appear to indicate that the board is overly involved, unless the board is not adhering to existing policies.

It appears that some board members view the public session time of board meetings as a forum for communicating more directly with staff or conveying a message. Although the board may not be micromanaging, people may perceive the board this way because of the manner in which specific issues are discussed during public session time at board meetings. Board meetings should clearly focus on shaping policy to serve students, not on direct communication with staff. Board members should refrain from day-to-day administrative activities, strive for professional skepticism but not distrust, and insist on financial controls and responsibility.

Orientation sessions, workshops, conventions and special meetings are available to board members that would allow them to better understand their duties, functions, authority and responsibilities.

It is the role of the district chancellor to ensure that processes are in place to effectively deliver services, and to hold college staff and administrators responsible for adherence to those processes. When board members become involved in administrative activities, the result is wasted effort, inefficient use of personnel and ineffective leadership.

It appears that the board is following board policies related to financial management in most cases. However, it is important that all board policies in the board of trustees' policy manual be reviewed and that policies be revised or eliminated if they are no longer appropriate or do not fully meet current legal or statutory requirements.

The district budget advisory committee's (DBAC's) purpose is to advise the chancellor on significant budgetary issues which impact the district and its students, as well as the statewide community college system. Although the "Roles, Responsibilities and Operating Procedures" document is clear and widely understood, there is no one board policy that defines the composition, responsibilities and purpose of the DBAC. Such a policy would clarify the roles and responsibilities of the board, administration and DBAC. The policy should include details, or reference the "Roles, Responsibilities and Operating Procedures" document.

The district's academic senate and DBAC are fulfilling their advisory role. However, it appears that many staff involved in the academic senate and the DBAC process do not fully understand or appreciate the board's role as final decision maker. The board should continue to act as the final decision maker in district matters, but should also communicate promptly with the academic senate when its recommendations are not approved, and work closely with the academic senate and the DBAC.

To serve as a useful management tool, the district's budget should be based on accurate data, budget guidelines that embody the educational and financial goals and plans of the college, and assumptions that reflect the best information available. The current statement of common values, vision statement, mission statement and master plans should be included in the budget, as should a shared set of strategic directions for the future. The district's strategic plan and mission statement need to be updated, as do the educational and facilities master plans for both colleges.

The district should implement strategic planning and goal setting that includes a three year budget plan. Operational managers should be included in the budget development process. The budget should include goals and priorities for each functional area, department and program at each college. The current practice of rolling over base budgets should be avoided.

FCMAT calculated that the district's 2006-07 tentative budget contained more than $3 million for unfilled positions. This practice inflates annual expenditures. Rather than the current method of budgeting salary savings in revenue, salary and benefit accounts should be reviewed and modified. In addition, position control should be integrated with other financial modules. Establishing a uniform position control system for the district and its two colleges would be beneficial and worth the expenditure.

The district's business office currently projects FTES based on past trends and additional information known to affect student enrollment. FCMAT believes that partnership and data sharing through an effective districtwide coordinated enrollment management effort among the admissions and records office, business office and the office of instruction could strengthen the district's ability to evaluate the number of classes and students to increase revenues and related instructional staffing.

The district and its two colleges do not currently have the ability to accurately show revenues, expenditures and the net ending balance throughout the year. The ability to forecast and verify this information monthly would provide the district with early warning of any discrepancies between budget projections and actual revenues or expenditures. The colleges also need a system to authorize budget transfers, revisions and expenditures during the year so that the budget more accurately reflects actual revenues and expenditures.

The district uses different financial systems for different functions. The lack of a single system significantly increases the probability of error. The district should identify the best single financial system for its needs and purchase it, or add modules and capacity to the current Datatel system. The Datatel report writer module should be used for all budget reports, and all department heads and managers should receive training on this module.

FCMAT found that staff members often view district budget data as unreliable because district reports show different amounts than college reports. Because data is retrieved from the same system, it appears that the differences are caused by the way reports are requested from the Paris system. The district is establishing a document retrieval system which will include templates and other reports so that colleges can submit uniform requests for data. This will be a significant improvement and should alleviate the confusion resulting from the current disparities in data.

The district has a history of large variances between budget and actuals at year end, usually resulting in a much larger than expected ending fund balance. These variances are a major concern, were a topic in most interviews conducted by FCMAT, and have contributed to a lack of trust in the annual financial outcome. The cause of these variances is clear: budgets are not updated as the year progresses. The greatest variances have occurred in the salary and benefit categories. To correct this, the district should not budget for positions that remain unfilled, and should adjust budgets during the fiscal year as new information becomes available. In addition, annual performance reviews of site administrators and department managers should include an evaluation of their fiscal management.

With the exception of “what if” scenarios for contract negotiations, the district does not currently prepare comprehensive multiyear financial projections (MYFPs) to determine the impact of current spending patterns on future years. While this lack of MYFPs has not been unusual for community college districts in the past, the recent decline in FTES and related state apportionment revenues increases the need for them.

FCMAT prepared two MYFPs based on two FTES scenarios. Both MYFPs show that the district will be able to maintain the 5% reserve recommended by the State Community College Chancellor’s Office, as well as the current board designations and contingencies.

If credit FTES are not fully recovered in 2006-07, one option to recover lost revenues is to roll back summer 2007 FTES into the 2006-07 year. Because this strategy can fail if not properly managed, it should be accompanied by a tactical plan for growth and recovery of the rolled back FTES in 2007-08.

The district’s business operations are decentralized: each college must follow district policies, but operates more or less autonomously. High turnover in the district’s position of Vice Chancellor of Business Services has contributed to the current business reporting structure, and to the lack of consistent business leadership, training, processes and procedures. The reporting structure should be changed so that the dean or vice president at each college who has primary responsibly for budget and finances reports directly to the college president and partially to the district vice chancellor. This would increase accountability, communication and efficiency with and in the vice chancellor’s office, and provide consistent districtwide procedures and oversight while maintaining each position’s ability to complete their college’s budget and accounting transactions. In the event that districtwide business procedures are not followed, the respective college president should also be held accountable.

The district and college business staff should begin meeting at least every two weeks to discuss issues, policies and procedures.

Internal controls are the foundation of sound financial management. The district should ensure that strong internal controls are in place and that employees are aware of and follow internal control procedures.

The district lacks a professional development plan for college and district personnel. All new and existing employees, including supervisors at the college and district level, need training and need to have expectations communicated to them. Training is of particular value whenever processes or procedures are changed or updated in a way that affects employees' job duties. Having district and college business staff attend the same training and staff development activities can help foster districtwide unity.

The district's administrative team should receive information annually regarding each department's functions and leadership.

The district has not distributed a reference guide to employees since the 2003-04 academic year. A new reference guide is being drafted and should be completed as soon as possible. It is important for all employees who interact with the business department to better understand processes, procedures and expectations.

The district's business office lacks written desk manuals, standard operating procedures and other specific reference documents. This lack of documented procedures can hinder operational continuity and should be addressed.

District and college staff have spent a significant amount of time developing an allocation model. The district should decide whether to continue using the current model or adopt a different model. Regardless of which model is chosen, rolling over department and college budgets from the previous year should be discontinued.

In the 2004-05 fiscal year, the district did not meet the requirements of the 50% law, primarily because negotiated salary agreements were not reached until late in the 2004-05 fiscal year and not posted and paid until August and September of the 2005-06 fiscal year. The law states that within two years after the year of deficiency the district must add any expenditure deficiencies to the amount to be expended for salaries of classroom instructors. FCMAT's review of the district's preliminary 50% calculation for the 2005-06 fiscal year shows that the district has included the expenditure deficiencies from the prior year and will meet the legal requirements. The district's task for the 2006-07 year will be to maintain compliance with the 50% law. Each college needs to understand the overall fiscal impact on the district rather than engage in isolated efforts to comply with the 50% law.

The district should take steps to more accurately record revenues and abatement of expenditures in sub fund 17 of the general fund. Corrections to this process can help the district maximize eligible expenditures to comply with the 50% law. Policies and processes currently in place for sub fund 17 should be reviewed and updated as necessary.

When abatements of a particular type are numerous and/or involve large amounts, the credits should be made to a contra account instead of directly to the expenditure account. This avoids the undesirable features of a mixed account and makes it easy to determine gross expenditures, abatements and net expenditures at any time.

Based on FCMAT's Fiscal Health Risk Analysis, the district has a low level of fiscal risk, with "no" responses in three areas: leadership/stability, budget monitoring and position control. The district should continue to assess its fiscal health and work to improve any areas receiving a "no" response.

Findings and Recommendations

Leadership and Governance

Board Responsibilities

The West Valley-Mission Community College District is governed by a seven member board of trustees elected at large for a term of four years, with the requirement that two of the members shall reside within Trustee Area 1, three members within Trustee Area 2 and two of the members within Trustee Area 3.

The district's board of trustees meets on the first and third Thursday of each month, with the location of the meeting alternating between the two college sites. Board meeting schedules and agendas are published on the district's Web site.

The board is responsible for the approval, review, amendment and deletion of policies governing the operation of the district. The role of the board of trustees is to set policy, hire and evaluate the chief executive officer and create a vision and an environment that promotes the efficient delivery of public services. The board of trustees should adhere to a clearly defined policy for selecting and evaluating the chief administrator. Members of the board of trustees should carry out the will of the people who elected them; careful development and maintenance of the public trust is essential to responsible governance.

Institutions should recognize that it is the responsibility of the board of trustees to set policies, and of the chief administrator to oversee and ensure the effective operation of the institution. Multi-college districts should also clearly define and distinguish the roles of the district and of the individual colleges.

College district boards of trustees are also responsible for establishing policies that ensure the quality of student learning and the financial stability of the institution. The board of trustees should also do the following:

a. Act as an independent policy-making body that reflects the public interest in its activities and decisions. Once the board reaches a decision, it acts as a whole, advocating for and defending the institution.

b. Establish policies that are consistent with the institution's mission statement, that ensure the quality of student learning programs and services, and that support learning with necessary resources.

c. Be responsible for educational quality, legal matters and financial integrity.

d. Publish the board bylaws and policies specifying the board's size, duties, responsibilities, structure, and operating procedures.

e. Act in a manner consistent with board policies and bylaws. The board should regularly evaluate its policies and practices and revise them as necessary.

f. Implement and carry out a program of board development and new member orientation. There should be a mechanism to provide continuity of board membership during staggered terms of service.

g. Conduct self-evaluations that assess board performance as part of a clearly defined process that is implemented and published in board policies or bylaws.

h. Abide by a code of ethics that includes a clearly defined policy for dealing with violations.

i. Become and remain informed about and involved in the accreditation process.

j. Be responsible for selecting and evaluating the district chancellor and the chief administrator of each college. The board of trustees should delegate to each chief administrator full responsibility and authority to implement and administer board policies without board interference, and should hold each chief administrator accountable for the operation of his or her respective college.

Board Stability

Three members of the board of trustees have served three terms or more, one member was elected in 2000 and is in his second term, and three are currently in their first term. The longest serving member has been on the board since 1988. The current board president is the second longest serving member, but has announced his intention not to run in the upcoming November election. Three board seats will be contested in the 2006 election.

Interviews conducted by FCMAT indicated that the board of trustees may be overly involved in the daily administrative operations of the district. FCMAT did not observe this tendency during interviews with board members, and FCMAT's review of board policy and other documents did not appear to indicate that the board is overly involved, unless the board is not adhering to existing policies.

The conduct of the board during open, public sessions does not appear to be well understood by staff. Extending meeting time without apparent good reason and board micromanagement were themes FCMAT heard consistently during interviews.

It appears that some board members view the public session time as a forum for communicating more directly with staff or conveying a message. Although the board may not be micromanaging, people may perceive the board this way because of the discussion of specific issues during public session time at board meetings. Board meetings should focus on shaping policy to serve students, not on direct communication with staff.

It is the role of the district Chancellor to ensure that processes are in place for effective delivery of services, and to hold college staff and administrators responsible for adhering to those processes. When board members become involved in administrative activities, the result is wasted effort, inefficient use of personnel and ineffective leadership.

Board Role in Fiscal Matters

The board links the college to the larger community, and ensures the integrity of strategic and master planning and its relationship to short term planning as evidenced in the annual district and college budgets.

The board's fiduciary responsibility has three essential components:

(a.) The board should **craft policy to guide fiscal planning**. This includes establishing control at the governance level, encouraging correct decisions and behaviors, and requiring controls and measurements to identify incorrect decisions and behaviors. The board should determine which aspects of budgeting are significant for governance and therefore merit control by the board. In doing this, the board should move beyond consideration of the budget numbers to the important values underlying them.

(b) The board should **craft policy to safeguard fiscal condition**.

(c.) The board should **monitor fiscal management and condition.**

The board of trustees is responsible for reviewing and approving the district's budget. Tentative budgets are to be adopted by June 15 and a final budget by September 15. An adopted budget is both a fiscal and a policy document that determines what the district and the colleges will do by providing the resources to put initiatives into action. In doing so, it reflects the values, educational priorities and future goals of the district. The budget also meets all other policies established by the board.

The board's role is to provide stewardship by establishing responsible fiscal policies and monitoring results to ensure accountability, the efficient use of public funds, the preservation of public assets, and ongoing financial stability.

This role includes the following specific responsibilities:

- Establishing policy criteria to guide the budgeting process.
- Setting general priorities for the budget early in the process.
- Studying and understanding budget proposals.
- Adopting budgets after assessing proposals against policy criteria and priorities.

Recommendations

The district's board of trustees should:

1. Refrain from day-to-day administrative activities, including influencing or directing administrative decisions regarding course scheduling, faculty scheduling, hiring, discipline, transfers, assignments, procurement, expenditures and other operations.
2. Ensure that it is involved in setting policies, not operational details.
3. Seek to better understand the duties, functions, authority and responsibilities of board members. The board should participate in orientation sessions, workshops, conventions and special meetings sponsored by board associations. Board members should have access to pertinent literature, statutes, legal counsel and recognized authorities.
5. Strive to exercise professional skepticism without sending a message of distrust that may harm the college, the board and the staff. The board should insist upon financial controls, audits, accurate and timely financial reports, and the speedy identification and resolution of problems.

Board Policies

As described in board-approved policies, the duties of the board are to:

1. Select and appoint the chancellor and conduct an annual review and evaluation.
2. Determine the general policies which will govern the operation of the district and review them periodically.
3. Approve the budget and the expenditure of all funds.
4. Determine the appropriate organizational structure of the district, based on the recommendations of the chancellor.
5. Consider the recommendations of the chancellor pertaining to the appointment or dismissal of employees.
6. Fix the rate of compensation for all employees and review all salary schedules annually or as determined by contractual obligation.
7. Consider the recommendations of the chancellor on matters of maintenance of buildings, grounds and equipment, including site use, physical plant development and major improvements.
8. Require and consider reports from the chancellor concerning the conditions of the colleges.
9. Consider the curricular offerings of the colleges upon the recommendation of the academic senate.
10. Consider the annual academic and board calendars
11. Authorize the preparation of an annual report to district residents on the state of the district.
12. Consider the recommendations of the chancellor in all matters of policy pertaining to the welfare of students.
13. Provide for the establishment of procedures to ensure proper accounting of receipts and disbursements of district funds and the funds of student organizations, and other auxiliary funds under the district's supervision.
14. Provide for the annual audit of all funds of the district, student organizations, cafeteria, bookstore, and other auxiliary funds under the district's supervision.
15. Consider communications and requests from citizens or organizations on matters of policy and administration, with consultation and recommendations from the chancellor.
16. Authorize the chancellor and the college presidents to establish advisory committees and to approve the memberships of such committees.
17. Appoint board committees as appropriate.

18. Serve as a court of final appeal to the citizens of the district after the administration has reviewed, met, or corresponded with citizens and recommended findings to the board for appropriate action.
19. Serve as a court of final appeal for students and employees of the district. The board will serve in its appellate role for students and employees only after a decision on the matter in contention has been made by the chancellor; and only on the basis of a written request to the board for reconsideration of the matter.
20. Exercise fiscal powers, including authorizations to:
    a. Construct, acquire, hold, and use property necessary to carry on its power pursuant to law;
    b. Construct, operate, and hold any project;
    c. Fix and/or alter changes for the use of any project acquired, equipped, constructed, or maintained by the board subject to any existing contractual relationships binding on the district;
    d. Issue revenue bonds to raise funds; and
    e. Adopt such policies and certain rules and regulations as may be necessary to enable the board to exercise the powers and perform the duties conferred upon the board by law.

FCMAT reviewed board policies as they relate to financial management to consider whether the role of the board appears sufficient in this area. These policies are in Chapter 6 of the board of trustee's policy manual and include the following:

- Business operations
- Delegation of authority
- Authorized signatures
- Warrant signatures
- District budget
- Fiscal standards
- Cash collections
- Investment of district funds
- Conference attendance and travel
- District audit
- Parking and traffic
- Citizens' oversight committee
- Auxiliary operations
- Solicitation of funds
- Purchasing
- Records management
- Security for district property
- Property transfer and use

- Property management
- Sale and disposal of district property
- Risk management and insurance
- Transportation on district sponsored activities or business
- District police services
- Safety
- Facilities development and renovation
- Civic Center and other facilities use
- Gifts and donations
- Fees and charges

FCMAT found that in most cases the policies appear to be followed. However, it is important to review all policies in the manual and to revise or delete those that are no longer appropriate or that do not fully meet current legal or statutory requirements.

Board Policy 6.5, "District Budget," identifies responsibilities and expectations related to the budget. For instance, 6.5.1 states, "The board authorizes the establishment and maintenance of general unrestricted, general restricted, debt service, special revenue, capital projects, enterprise, internal service, trust, and agency funds." This policy sets the protocol for the budget so that the administration can then follow through with budget development. This is appropriate because it sets policy and parameters, not specifics. The budget development process requires the board of trustees to have a policy-oriented focus that concentrates on expenditure standards and formulas that meet the district's goals, rather than on specific line items. These policies, standards and formulas serve to direct staff to design an expenditure plan that focuses on the needs of students and the colleges.

Board policy 6.6.1, "Budget Development Actions," states:

> Each year the District Budget Advisory Committee (DBAC) will develop a budget that results in steady progress toward achieving each of the requirements of these Fiscal Standards and which reflects the Board's annual budget priorities to the extent possible. While the development of the annual budget occurs through the shared governance process, the Vice Chancellor, serving as the Chief Business Officer, is responsible for submitting a budget to the Chancellor that complies with the requirements of the plan. The Chancellor is responsible for submitting a balanced final budget to the Board for approval.

When reviewing this policy, FCMAT found that the annual budget documents for the past several years contain the board's adopted fiscal standards, which are set to guide the DBAC in developing the budget. The district's board of trustees conducts an annual retreat during which priorities are established for the upcoming budget year (see Appendix A for the board's budget priorities for 2005-06 and 2006-07). The retreats have sometimes taken place in the fall of the year prior to the year for which priorities are being set, but most often take place after the Governor's January release of the state budget proposal for the upcoming fiscal year. The district's budget development process begins after the board retreat.

Although the district budget advisory Committee (DBAC) is referenced in board policy 6.6.1, the committee's role may need to be further defined. FCMAT found that the board's relationship with the committee is not always clearly understood.

The DBAC is made up of staff from each college and from the district's administrative services division. Based on a document provided to FCMAT titled "Roles, Responsibilities and Operating Procedures" (dated 11/05/03), the DBAC is to function as the highest level districtwide shared governance body with regard to budget and planning, allowing input from all district constituencies. The document states that the DBAC is to be the "conduit for communication between the college councils, the Chancellor, and the board of trustees."

The stated purpose of the DBAC, using a consensus approach, is to advise the Chancellor on significant budgetary issues which impact the district and its students, as well as the statewide community college system. The committee's advice is conveyed to the Chancellor through the Vice Chancellor of Administrative Services.

According to the document, the DBAC is to do the following:

- Develop and recommend a system for allocating the district's resources. The system should be equitable, provide accountability, and be linked to the district's mission, goals and priorities.
- Ensure that budget recommendations do not jeopardize the district's fiscal stability.
- Research and make recommendations on various budget matters. In some instances, this will be accomplished through the use of temporary special-purpose subcommittees.
- Develop long range plans that assess the district's needs and provide resources to meet those needs.
- Consider compensation issues within the framework of the budget, not the collective bargaining process.
- Develop an annual budget planning calendar so that the budget process and timelines are clearly understood by the college community.
- Help identify ways to secure federal, state and local grants and other revenue sources.
- Promote communication with various constituencies regarding budget information and issues.
- Assist in efforts to communicate the district's funding needs to state, local and federal legislators.
- Review emerging needs that affect the district's budget.
- Submit recommended tentative and final budgets.

- Recognize that the Chancellor is responsible for taking recommendations from the DBAC to the board of trustees.

The work of the DBAC is intended to lead to trust, cooperation, mutual understanding, team identity and coordination. Although members are responsible for conveying the needs of the various constituencies represented, each member must be able to recommend budget solutions that will benefit the entire district. According to the document, the "DBAC relies on the Chancellor to inform the Board of Trustees of areas/items in which the Committee's recommendations differ from his/her own opinion."

Recommendations

The district and the board of trustees should:

1. Review all policies in the board of trustees' policy manual. Revise or eliminate any policies that are no longer appropriate or that do not fully meet current legal or statutory requirements.
2. Ensure that all policies in the revised manual are followed.
3. Adopt a policy that defines the composition, responsibilities and purpose of the DBAC. The policy may provide details, or may reference the "Roles, Responsibilities and Operating Procedures" document. Having such a policy in place will clarify the roles and responsibilities of the board, the administration and the DBAC.

Academic Senate's Role in Governance

Assembly Bill 1725 (1989), the last major California community college reform legislation, codified the concept of shared governance and required each district to implement the provisions of law within parameters established by regulation in Title V.

The district's Board Policy 3.3.4, Academic Personnel, recognizes the role of the Academic Senate under the provisions of AB 1725 as codified in the California Code of Regulations, Title 5, 53200 and following.

Board Policy 3.3.4b states, "It shall be the policy of the District to rely primarily upon the advice and judgment of the Academic Senate in all eleven areas identified in the California Code of Regulations, Title 5 # 53200."

Board Policy also states, "The recommendations of the Senate will normally be accepted, and only in exceptional circumstances and for compelling reasons will recommendations not be accepted. If the recommendation is not accepted, the Board or its designee, upon request of the Academic Senate, shall promptly communicate its reasons in writing to the Academic Senate."

The *California Community College League Trustee Handbook* states:

> State regulations provide for faculty, staff and student involvement in the budget development process. The process used to develop the budget proposal varies from college to college. However, the local Academic Senate is to be consulted collegially in shaping the processes used for developing institutional plans and the budget. The Board is not required, though, to rely primarily on the senate's recommendations or reach mutual agreement with the senate on the plans and budget themselves.

FCMAT found that the district tends to lose the distinction between the process and the plan or budget itself and that this can sometimes cause contention. The district's Academic Senate and DBAC are fulfilling their role as defined in board policy and regulations by providing advice and recommendations. However, it appears that many staff involved in the academic senate and the DBAC process do not fully understand the board's role as final decision maker and believe that the board should always approve the recommendations provided.

Recommendations

The board of trustees should:

1. Rely primarily upon the advice and judgment of the academic senate in the areas defined by board policy.
2. Communicate promptly with the academic senate when its recommendations are not approved.
3. Work closely with the academic senate and the DBAC when shaping the processes used to develop institutional plans and the budget.
4. Continue to act as the final decision maker in district matters.

Budgetary Practices

Expenditure Activity Report

Tables 1 through 4 on the following pages show actual expenditures for the 2004-05 fiscal year in community college districts similar to West Valley-Mission. Each activity reflects the purpose of the expenditure, showing the aspect of the college or district operation that benefits from the expenditure. The average and median full time equivalent Students (FTES) are listed as percentages at the bottom of the expenses per FTES columns.

The budget activity code descriptions are defined below so that the expenditures included in the different codes is clear. The 50% calculation, defined later in the report, is more complex and differs from the “instruction” column in this report. For example, instructional supplies are included in the instruction expenditures in this report but are not included for purposes of the 50% law.

Expenditure by Activity Report Definitions

Instruction—Activity Codes 0100-5999-The direct cost of classroom instruction incurred in offering credit and not credit course approved by the State Chancellor’s Office

Instructional Administration—Activity Code 6000-The direct cost of the first level of administration immediately above the instructor.

Instructional Support—Activity Code 6100-The direct costs for services provided as supplement to the instruction area such as learning centers, libraries, media and museums and galleries.

Admissions-Counseling and other Student Services—Activity Codes 6200-6400-The direct costs associated with student support services including admissions and records, counseling and guidance and other student services.

Plant Operations—Activity Code 6500-The direct costs associated with the general operation and maintenance of buildings and grounds.

Planning and Policy Making—Activity Code 6600-The direct costs associated with the executive board level management of the district and colleges including the board of trustees, Chancellor’s office, college presidents and their support operations.

Institutional Support—Activity Code 6700-The direct costs associated with the other activities of the district including community relations, fiscal operations, human resources and staff development.

Table 1: Actual Instructional Expenses, Comparable Districts, 2004-05

College Districts	Actual Expense	Instruction Expenses per FTES	%	Actual Expenses	Instructional Administration Expenses per FTES	%	Actual Expenses	Instructional Support Expenses per FTES	%
1. Chabot-Las Positas	40,824,668	2,499	52.0%	3,771,078	231	4.8%	3,106,506	190	4.0%
2. Coast	75,139,703	2,196	46.5%	12,417,128	363	7.7%	9,948,118	291	6.2%
3. Contra Costa	74,249,847	2,861	52.5%	9,202,452	355	6.5%	3,728,697	144	2.6%
4. Foothill-DeAnza	88,722,888	2,855	55.7%	10,309,815	332	6.5%	5,705,435	184	3.6%
5. Grossmont-Cuyamaca	40,397,466	2,238	47.1%	4,902,357	272	5.7%	3,593,799	199	4.2%
6. Kern	49,828,422	2,655	50.7%	7,539,906	402	7.7%	2,334,084	124	2.4%
7. Los Angeles	202,081,342	2,083	43.3%	31,244,278	322	6.7%	18,359,434	189	3.9%
8. Los Rios	117,143,512	2,487	53.1%	12,866,051	273	5.8%	8,010,180	170	3.6%
9. North Orange Co.	71,328,234	2,074	48.8%	10,856,617	316	7.4%	10,766,137	313	7.4%
10. Peralta	45,411,392	2,555	46.6%	4,369,621	246	4.5%	3,960,873	223	4.1%
11. Rancho Santiago	62,479,434	1,572	46.8%	13,694,900	345	10.3%	4,620,895	116	3.5%
12. San Bernardino	30,847,776	2,187	47.1%	2,730,999	194	4.2%	3,123,248	221	4.8%
13. San Diego	90,163,100	2,209	47.6%	14,046,459	344	7.4%	5,668,171	139	3.0%
14. San Jose/Evergreen	37,624,253	2,828	50.1%	4,878,768	367	6.5%	2,722,589	205	3.6%
15. San Mateo Co.	49,425,858	2,290	51.2%	6,130,368	284	6.3%	3,211,538	149	3.3%
16. South Orange Co.	54,770,462	2,534	50.6%	7,298,319	338	6.7%	4,359,268	202	4.0%
17. State Center	57,256,702	2,189	48.5%	7,994,311	306	6.8%	3,938,695	151	3.3%
18. Ventura Co.	62,912,277	2,473	49.3%	6,146,626	242	4.8%	3,390,779	133	2.7%
19. West Valley-Mission	**41,159,911**	**2,332**	**48.6%**	**3,903,602**	**221**	**4.6%**	**3,667,957**	**208**	**4.3%**
20. Yosemite	50,592,996	2,938	53.6%	4,744,492	276	5.0%	4,476,484	260	4.7%
Average		**2,403**	**49.5%**		**301**	**6.3%**		**191**	**4.0%**
Median		**2,402**	**49.0%**		**311**	**6.5%**		**190**	**3.8%**

Table 2: Actual Student Services Expenses, Comparable Districts, 2004-05

	Admissions			**Counseling**			**Other Student Services**		
College Districts	**Actual Expenses**	**Expenses per FTES**	**%**	**Actual Expenses**	**Expenses per FTES**	**%**	**Actual Expenses**	**Expenses per FTES**	**%**
1. Chabot-Las Positas	1,732,783	106	2.2%	4,727,634	289	6.0%	3,694,485	226	4.7%
2. Coast	3,194,755	93	2.0%	6,591,434	193	4.1%	11,497,980	336	7.1%
3. Contra Costa	1,990,279	77	1.4%	3,764,592	145	2.7%	9,514,499	367	6.7%
4. Foothill-DeAnza	3,373,585	109	2.1%	6,048,740	195	3.8%	7,863,080	253	4.9%
5. Grossmont-Cuyamaca	1,654,642	92	1.9%	3,383,241	187	3.9%	10,163,617	563	11.8%
6. Kern	1,321,655	70	1.3%	2,963,850	158	3.0%	8,023,157	428	8.2%
7. Los Angeles	9,305,637	96	2.0%	20,364,983	210	4.4%	30,849,734	318	6.6%
8. Los Rios	2,643,770	56	1.2%	12,189,084	259	5.5%	15,478,627	329	7.0%
9. North Orange Co.	2,883,033	84	2.0%	7,246,459	211	5.0%	8,832,976	257	6.0%
10. Peralta	1,282,902	72	1.3%	4,519,849	254	4.6%	11,000,852	619	11.3%
11. Rancho Santiago	2,223,421	56	1.7%	8,351,966	210	6.3%	11,891,259	299	8.9%
12. San Bernardino	1,373,179	97	2.1%	2,608,909	185	4.0%	5,913,192	419	9.0%
13. San Diego	4,432,092	109	2.3%	10,418,126	255	5.5%	13,631,616	334	7.2%
14. San Jose/Evergreen	1,561,882	117	2.1%	4,586,428	345	6.1%	5,873,693	442	7.8%
15. San Mateo Co.	2,982,835	138	3.1%	4,572,709	212	4.7%	5,772,798	267	6.0%
16. South Orange Co.	2,520,305	117	2.3%	4,799,108	222	4.4%	6,237,517	289	5.8%
17. State Center	2,330,866	89	2.0%	6,068,880	232	5.1%	13,249,343	507	11.2%
18. Ventura Co.	1,587,427	62	1.2%	5,838,422	230	4.6%	11,239,894	442	8.8%
19. West Valley-Mission	**1,636,491**	**93**	**1.9%**	**4,729,155**	**268**	**5.6%**	**6,327,934**	**358**	**7.5%**
20. Yosemite	1,061,789	62	1.1%	2,621,926	152	2.8%	6,048,436	351	6.4%
Average		**90**	**1.9%**		**221**	**4.6%**		**370**	**7.7%**
Median		**92**	**2.0%**		**211**	**4.6%**		**344**	**7.2%**

Table 3: Actual Other Expenses, Comparable Districts, 2004-05

	Plant Operations			Planning and Policy			Institutional Support		
College Districts	**Actual Expenses**	**Expenses per FTES**	**%**	**Actual Expenses**	**Expenses per FTES**	**%**	**Actual Expenses**	**Expenses per FTES**	**%**
1. Chabot-Las Positas	6,775,923	415	8.6%	2,722,799	167	3.5%	11,131,038	681	14.2%
2. Coast	12,576,203	368	7.8%	5,602,505	164	3.5%	24,521,371	717	15.2%
3. Contra Costa	12,465,627	480	8.8%	4,288,168	165	3.0%	22,136,516	853	15.7%
4. Foothill-DeAnza	11,520,721	371	7.2%	4,841,314	156	3.0%	20,950,037	674	13.1%
5. Grossmont-Cuyamaca	6,111,479	339	7.1%	2,747,842	152	3.2%	12,855,745	712	15.0%
6. Kern	7,719,001	411	7.9%	2,670,881	142	2.7%	15,835,507	844	16.1%
7. Los Angeles	42,351,553	437	9.1%	14,402,658	148	3.1%	97,350,182	1,004	20.9%
8. Los Rios	18,161,207	386	8.2%	5,410,119	115	2.5%	28,644,128	608	13.0%
9. North Orange Co.	14,036,257	408	9.6%	4,989,313	145	3.4%	15,300,989	445	10.5%
10. Peralta	9,377,869	528	9.6%	5,097,392	287	5.2%	12,524,337	705	12.8%
11. Rancho Santiago	8,950,812	225	6.7%	2,577,834	65	1.9%	18,794,509	473	14.1%
12. San Bernardino	6,668,269	473	10.2%	2,181,665	155	3.3%	9,981,722	708	15.3%
13. San Diego	15,950,863	391	8.4%	5,604,615	137	3.0%	29,629,674	726	15.6%
14. San Jose/Evergreen	7,106,098	534	9.5%	2,394,597	180	3.2%	8,403,186	632	11.2%
15. San Mateo Co.	8,209,703	380	8.5%	3,191,525	148	3.3%	13,087,834	606	13.6%
16. South Orange Co.	8,709,167	403	8.0%	6,807,632	315	6.3%	12,699,965	588	11.7%
17. State Center	8,983,782	343	7.6%	6,122,854	234	5.2%	12,058,120	461	10.2%
18. Ventura Co.	9,526,132	374	7.5%	2,235,251	88	1.8%	24,806,467	975	19.4%
19. West Valley-Mission	**6,781,131**	**384**	**8.0%**	**6,469,830**	**367**	**7.6%**	**9,956,108**	**564**	**11.8%**
20. Yosemite	7,537,422	438	8.0%	3,349,450	195	3.6%	13,901,166	807	14.7%
Average		**404**	**8.3%**		**176**	**3.6%**		**689**	**14.2%**
Median		**397**	**8.1%**		**155**	**3.3%**		**693**	**14.1%**

Table 4: Total Expenses, Comparable Districts, 2004-05

College District	Total Actual Expenses	Total Expenses Per FTES	Total FTES
1. Chabot-Las Positas	78,486,914	4,805	16336
2. Coast	161,489,197	4,720	34217
3. Contra Costa	141,340,677	5,446	25952
4. Foothill-DeAnza	159,335,615	5,127	31080
5. Grossmont-Cuyamaca	85,810,188	4,754	18049
6. Kern	98,236,463	5,235	18766
7. Los Angeles	466,309,801	4,807	97010
8. Los Rios	220,546,678	4,682	47101
9. North Orange Co.	146,240,015	4,252	34390
10. Peralta	97,545,087	5,488	17775
11. Rancho Santiago	133,585,030	3,362	39736
12. San Bernardino	65,428,959	4,639	14103
13. San Diego	189,544,716	4,643	40821
14. San Jose/Evergreen	75,151,494	5,649	13303
15. San Mateo Co.	96,585,168	4,474	21587
16. South Orange Co.	108,201,743	5,007	21610
17. State Center	118,003,553	4,512	26154
18. Ventura Co.	127,683,275	5,019	25439
19. West Valley-Mission	**84,632,119**	**4,794**	**17653**
20. Yosemite	94,334,161	5,478	17219
Average		**4,845**	
Median		**4,799**	

Budget Development

Title 5 of the California Code of Regulations (CCR), section 58305, requires that every community college district adopt a final budget by September 15 of each year. This should be preceded by budget development and the production of a tentative budget, which must be adopted by the board no later than July 1. In accordance with Title 5, section 58301 of the California Code of Regulations, a public notice must be placed in a newspaper and must state when and where the budget will be presented and where it is available for inspection.

Three main requirements of any community college budget are to maintain an unrestricted general fund reserve of at least 5%; to budget enough funds to hire a sufficient number of full time faculty to meet the full time faculty obligation (FTO); and to budget a proper mix of expenditures to comply with the 50% law.

Budget development requires the board to have a policy-oriented focus. The budget development process should be dynamic and should integrate the goals of the district and its two colleges. The budget is both a policy document and a fiscal document that allocates limited and valuable resources to best meet the district's educational goals. It establishes the district's spending practices and provides a blueprint for management and staff to follow. What the budget does and does not fund reflects the real priorities of the district and its colleges; it is the single most important policy document over which the board exercises control

Because the budget should align with the district's and colleges' strategic plans, the strategic plan must be developed or updated before the budget is adopted, preferably no later than January of each year.

To serve as a useful management tool, the budget should be based on accurate data, budget guidelines that embody the educational and financial goals and plans of the district and each college, and assumptions that reflect the best information available.

Budget development should include input from and participation by the board of trustees, the two college presidents, cabinet members, academic and classified leadership, district business officials, department heads and program directors as well as educational staff. The board of trustees should avoid focusing on specific line items and instead direct staff to design an expenditure plan that meets students' and colleges' needs.

FCMAT's review of the budget development process included interviews with key personnel and a review of budgets, quarterly financial reports and audited financial statements for the past five years. FCMAT also reviewed position control processes and calculations of salary and benefit costs.

The district's 2006-07 tentative budget discusses the district's strategic plan, which was last updated in November 2001. The plan is described as having a statement of common values, vision and mission, and a shared set of strategic directions for the future; however, these specific values, vision and mission are not included in the document. A task force has been working to update the district's mission statement for more than a year, but a draft has not yet been completed.

The tentative budget also states that both colleges are updating their educational and facilities master plans (E&FMPs), which are approximately six years old. E&FMPs develop the time frame and basis for budget development.

Strategic planning and goal setting should include a three year budget plan. Each goal should have objectives for the current budget year, with each objective assigned to an administrator or manager who is responsible for achieving it. This allows each objective to be correlated with items in the budget for the next fiscal year. This planning should be completed in time for inclusion in the budget for the upcoming fiscal year.

District policy 6.5.2 states,

> Each year, the Chancellor shall present to the Board a budget, prepared in accordance with Title 5 and the California Community Colleges Budget and Accounting Manual. The district budget is a financial plan (for the operation of the District and it Colleges) for the fiscal year, developed in accordance with Board adopted educational goals and objectives and fiscal standards. It will be made available for review. In addition to meeting all applicable legal and regulatory requirements, the District budget shall, to the greatest extent possible, be written such a manner that students, faculty, staff and other member of the community may understand it.

Board policy 6.5.3 states, "Each year, the Board will adopt a budget calendar and identify Board budget priorities. The budget calendar will provide adequate time for Board study and for the early establishment of Board budget priorities".

The district's budget document contains a budget calendar and lists the board's budget priorities for 2006-07, which include the following:

- Develop and maintain a balanced budget.
- Develop an integrated, comprehensive enrollment enhancement and management system.
- Increase nonapportionment revenue.
- Manage Measure H funds and capital project funds efficiently and effectively.
- Build the district's research and planning capacity.

The district's budget document is easily understood and balanced in terms of revenues and expenditures. Staff members have provided important information in a clear and understandable format that appears to meet legal and regulatory requirements. Board policy states that the budget is to be developed in accordance with board-adopted educational goals and objectives as well as fiscal standards. Fiscal standards are included in board policy, but educational goals and objectives are not; therefore, FCMAT was not able to determine whether the budget is aligned with the district's educational goals and objectives.

Currently, budget development is conducted by providing prior year operating budgets to the presidents of both colleges, who then determine if individual department budgets need to be increased or decreased. FCMAT found that most department budgets are simply rolled over from one year to the next without specific planning by departments.

Rollover budgets are best avoided. Budget development responsibilities should be distributed across the colleges, departments and programs; managers should prepare and submit department or program budgets based on current goals, priorities and costs. Identifying specific goals can foster accountability and help managers and staff focus on priorities. This budget development process also provides each college president with objective criteria for evaluating department managers.

Having two colleges makes budget development more complex for the district's administrative services. However, because the district's tentative budget clearly outlines the assumptions used in budget development, FCMAT did not have concerns in this area. Areas of concern noted by FCMAT include the use of rollover operating budgets at the college and department level, and the inclusion of all approved full time salaried positions in the adopted budget, even those which have not been filled for more than one year.

Because employee salaries and benefits account for more than 85% of the budget, projecting them accurately is the most important aspect of budget development. A reliable position control system can establish positions by college or department, track positions by number and type, and prevent overstaffing by ensuring that staffing levels conform to college formulas and standards.

Internal controls are processes designed to ensure effective operations, reliable financial information, and compliance with all applicable laws and regulations. Proper internal controls protect the district from material weaknesses and make serious errors and fraud unlikely.

An effective position control system integrates with other financial modules such as budget development, but operates independently of them to ensure proper controls. It ensures that only board-authorized positions are entered into the system and hired by the human resources department, and that the payroll department pays only employees hired into authorized positions. Separating the duties of the business and human resources departments is also a key factor in creating effective internal controls for any position control system.

The district has established internal controls to ensure that new or changed positions are properly authorized and have adequate funding. Processes are also in place to reconcile district position control information with that of the two colleges. However, because the district and the two colleges do not use a uniform position control system, effectiveness is diminished and additional time is needed to reconcile information.

The district's current position control system is maintained in a database and is not integrated with other financial modules such as payroll or budget. This lack of integration is a weakness. Although the district plans to use the Datatel position control module in the future, this will require re-entering a large amount of data and therefore will not occur for some time.

As a starting point for budget development, all authorized positions for the current fiscal year should be rolled into the upcoming budget year in January or February. The position control process can then be used to eliminate positions that will no longer be in the budget for the upcoming year and to add new positions. The result should be that position control contains those approved, funded positions that will exist and be filled in the coming year.

The district's current position control process includes all approved and funded positions in the budget, regardless of whether or not there are plans to fill those positions in any given year. Some of the positions have remained open even after it is known that they will not be filled for a given year. The budget payroll account is not adjusted when a position is not filled during the fiscal year or when it is filled with a substitute at a lower cost than projected.

FCMAT found that concern about funding for positions being permanently eliminated has contributed to the inclusion of all approved salaries in the budget, regardless of whether there are plans to fill the positions. However, the purpose of a budget is to provide a financial plan for one fiscal year, not an indefinite period. If the district expects an unfilled position to be filled during the fiscal year, it should include the position in the adopted budget at an estimated cost and adjust the budget as needed when the position is filled. Conversely, if the district knows that an approved position will not be filled during the year, the position should not be included in the adopted budget. FCMAT learned that when the district's 2006-07 tentative budget was being developed, more than $3 million of the budget was for unfilled positions, some of which had not been filled for many years and would not be filled during the budget year. This practice inflates annual expenditures.

The district partially compensates for this practice by budgeting cost savings in a revenue category, rather than decreasing the salary expenditures. Thus the initial account where an employee is charged is not adjusted; instead, an adjustment is made in revenue accounts to reflect the estimated savings for the year. In the 2006-07 tentative budget, $1.2 million is included as "projected use of one time salary savings, fiscal year 06-07." If it is projected that $1.2 million in savings will be generated, then salary and benefit accounts should reflect the savings by decreasing the object lines where the savings will occur, not by adding revenue.

After salary and benefit expenditures are budgeted, the current budget development process uses an allocation model for remaining expenditures. Remaining funds are allocated for operational expenses, but because there are very few dollars left to allocate, this portion of budget development actually rolls over the previous year's budgets. The current allocation model and the development of a new model are discussed later in this report.

Recommendations

The district should:

1. Continue to compare actual expenditures by activity with those of similarly sized districts.
2. Include in the budget the current statement of common values, vision statement, mission statement and master plans. A shared set of strategic directions for the future should also be included, based on the current strategic master plan and mission statement. Although these items are dated, they should be included until new statements are adopted.
3. Update the district's strategic plan and mission statement, and the Educational and Facilities Master Plans for both colleges.
4. Implement strategic planning and goal setting that includes a three year budget plan.
5. Include operational managers in the budget development process to help plan for specific department budgets.
6. Avoid rollover of base budgets.
7. Develop goals and priorities for each functional area, department and program at each college.
8. Review the method by which salary savings are budgeted and give serious consideration to revising it so that projected salary savings are shown in salary and benefit accounts rather than in revenue.
9. Establish and maintain position control in a database that is integrated with other financial modules. Consider establishing a uniform position control system for the district and its two colleges.
10. Develop an integrated plan for enrollment management. The short term goal should include a process for achieving base enrollment, growth, and limiting unfunded FTES. The long term goal should be to develop a comprehensive enrollment management plan.

Budget Assumptions

Budget assumptions and guidelines are the tools with which the preliminary budget is prepared. Management and board consensus on budget assumptions helps ensure fair and timely budget preparation. Budget assumptions typically include the following:

- Projected enrollment.
- Projected revenues.
- Expected cost of living adjustment (COLA) increases for the state apportionment and categorical programs.
- Anticipated or projected pay or benefit changes.
- The cost of step and column salary schedule movement.
- Certificated and classified retirements that may mitigate the cost of salary schedule movement.
- Cost increases in health benefits, workers compensation insurance, supplies, utilities and other commodities.
- The effect of anticipated changes in class sizes or programs, including the closing of programs with insufficient demand or the implementation of new programs.
- Anticipated changes in local matching requirements or contributions to restricted programs.
- Negotiated changes in employee benefits.
- Changes in post-employment benefits.
- An estimate of the current year projected ending fund balance.
- Projected carryover of restricted funds.
- Planned additions to or reductions of the colleges' reserves.
- Any other known conditions affecting the financial status of the district.

Staffing projections for instructional programs and other personnel costs are key elements of the budget.

Community college funding is based primarily on the number of full time equivalent students (FTES), which is calculated based on the total number of student contact hours. Each student contact hour represents a minimum of 50 instructional minutes, and 525 student contact hours equal one FTES. Any of the following three methods may be used to calculate student contact hours:

- Weekly Census method, used for regularly scheduled credit courses scheduled conterminously with the primary term.
- Daily Census method, used for regularly scheduled credit courses that are five or more days in length, but are not scheduled conterminously with the primary term.
- Positive Attendance method, used for all other courses that do not fit the previous two categories.

Colleges and districts should use the method which provides the greatest possible number of student contact hours.

The district's business office currently projects FTES based on past trends and additional information known to affect student enrollment. FCMAT believes that partnership and data sharing among the admissions and records office, business office and the office of instruction could strengthen the district's ability to evaluate the number of classes and students to increase revenues and related instructional staffing. After the three offices review the data, the business office should complete the FTES enrollment projections.

The district needs to balance its growth cap against its ability to grow, which may be limited by student demand, facilities, instructional staff and other factors. Assumptions regarding FTES and staffing are critical to a sound budget. Colleges with declining FTES typically strive to schedule sufficient courses and staffing without overcommitting resources.

The district's budget document includes appropriate and clearly written assumptions for revenue and expenditure items, and provides definitions that make it accessible to a wide audience. The district budget advisory committee (DBAC) provides a forum for a broad range of college representatives to discuss, review and agree upon budget assumptions.

Recommendations

The district should:

1. Establish procedures for FTES projections that involve key staff members and data from the business office, admissions and records, and the office of instruction.
2. Continue to prepare the budget document in the current comprehensive and informative manner.

Budget Monitoring and Revision

One of the unique characteristics of fund accounting, as compared to commercial accounting, is the use of budgetary accounts. These accounts project how much is expected to be received and expended in a specified amount of time to carry out the educational agency's goals. Budgetary accounts allow for comparisons between projections and what has actually occurred during the year.

Governmental Accounting Standards Board (GASB) 34, which applies to both state and local governments, changed the way budget information is reported in year end audited financial statements. Previously, agencies reported only the final budget and the results of financial transactions; however, under GASB 34, the budgetary comparison must now include the original budget, the final budget, and the results of financial operations for the general fund and major special revenue funds.

The district and its two colleges need the ability to accurately show revenues, expenditures and the net ending balance throughout the year. However, this is not currently occurring. The ability to forecast and verify this information monthly would provide the district with early warning of any discrepancies between budget projections and actual revenues or expenditures.

Budget monitoring controls help foster accountability among management staff, and can alert managers and administrators of potential revenue shortfalls or expenditure overruns. The following managers and administrators should be alerted: department and program managers; business staff at each college; the vice chancellor of administrative services and his staff; and the president of each college. The colleges also need a system to authorize budget transfers, revisions and expenditures during the year so that the budget more accurately reflects actual revenues and expenditures.

The law states that amounts budgeted in each major expenditure category shall be the maximum amount that can be expended under each such classification. During the fiscal year, budgets should be monitored. Revisions to major expenditure classifications are subject to board approval. Some educational agencies present budget revisions to the board with quarterly reports and some present them more frequently, such as monthly. This makes sense for adjustments that significantly affect the ending fund balance or other key aspects of the budget. The board can set a policy that states how often revisions may be presented.

Budget revisions normally fall into three main categories:

- Increases to estimated income and appropriations due to new grant awards or donations.
- Budgeting of carryover balances from prior years. It is district policy not to budget expenditure totals carried over from a prior year until after the unaudited actual balances for the year have been calculated.
- Increases in appropriations to prevent budget overruns.

For government funds, the difference between assets and liabilities is reported as the fund balance, which is then divided into reserved and unreserved portions. The reserved fund balance is the portion that is not available for expenditure or that is legally segregated for a specific future use. For example, stores, prepaid expenditures and revolving cash are not available for spending, so the portion of the ending fund balance that is attributed to those items must be reserved. The remaining fund balance is the unreserved portion, which is subdivided into designated and undesignated portions.

Board policy 6.6.2, Budget Monitoring and Management Actions, states, "The approved annual budget will be monitored and managed to ensure actual performance is consistent with the budget and that corrective action will occur as necessary in accordance with these policies and as provided by law," and "board approval is required for changes between major expenditure classifications. Transfers from the contingency reserve to any expenditure classification must be approved by a 2/3 vote of the members of the Board. Transfers between major expenditure classifications must be approved by a majority vote of the members of the board."

Salaries and benefits constitute the majority of any college's expenditures. Financial control over this area requires a precise and effective position control process. Without position control, expenditures can quickly exceed budgeted levels, leading to financial problems.

The district uses different financial systems for different functions. Datatel is used for general ledger/actual transactions; the budget is developed in Excel and uploaded into Datatel; position control uses an Access database; and payroll uses the Quintessential School System (QSS). Position control Access data and payroll QSS data is then uploaded into Datatel. The lack of a single system significantly increases the probability of human error.

Although any financial system is a large expense, choice of a suitable system will benefit the district. Datatel may have the capacity to meet the district's needs, but the way it is currently used is not effective. FCMAT learned that there is a timeline for the implementation of additional Datatel modules and a discussion group is being formed to consider use of the Datatel position control system.

The district and its colleges do not generate financial reports on the same system. The district generates reports using Datatel, but the colleges commonly use Paris, a report generator that is user-friendly but increases the chance of inadvertently omitting financial information because it extracts data from Datatel using query language by cost center. Paris will soon be discontinued and replaced by the recently purchased Datatel report writer, which will improve the consistency and accuracy of data.

FCMAT found that staff members often view district budget data as unreliable because district reports show different amounts than college reports. Because data is retrieved from the same system, it appears that the differences are caused by the way reports are requested from the Paris system. The district is also establishing a document retrieval system which will develop templates and other reports so that colleges can submit uniform requests for data This will be a significant improvement and should alleviate the confusion resulting from the current disparities in data.

As shown in Table 5, the district has a history of large variances between budget and actuals at year end, usually resulting in a much larger than expected ending fund balance.

Table 5: Year End Budget to Actuals Variances

	2001-02			2002-03		
	Budget	**Actuals**	**% Diff**	**Budget**	**Actuals**	**% Diff**
8100						
8600	20,604,800	19,262,082	-0.07	21,120,957	18,788,546	-0.12
8800	51,243,881	53,198,991	0.04	52,907,569	55,618,519	0.05
8900	271,920	297,421	0.09	283,107	179,215	-0.58
Revenue	**72,120,601**	**72,758,494**		**74,311,633**	**74,586,280**	
1000	31,842,451	34,477,753	0.08	34,143,595	34,748,030	0.02
2000	16,766,843	15,477,735	-0.08	16,516,276	14,248,334	-0.16
3000	11,522,530	11,277,946	-0.02	13,927,548	13,878,637	0.00
4000	1,603,312	1,678,890	0.05	1,332,980	1,079,003	-0.24
5000	8,799,516	7,220,069	-0.22	7,981,418	6,865,763	-0.16
6000	571,066	809,623	0.29	423,299	185,314	-1.28
7000	2,005,618	2,294,306	0.13	755,654	819,667	0.08
Expense	**73,111,336**	**73,236,322**		**75,080,770**	**71,824,748**	
Difference	**-990,735**	**-477,828**	**-1.07**	**-769,137**	**2,761,532**	**1.28**

Sources: Annual CCFS-311 for budget
Audit reports for actuals

Table 5: Year End Budget to Actuals Variances (continued)

	2003-04			**2004-05**		
	Budget	**Actuals**	**% Diff**	**Budget**	**Actuals**	**% Diff**
8100						
8600	17,798,427	18,321,088	0.03	27,853,410	17,620,764	-0.58
8800	52,388,198	55,905,361	0.06	48,581,266	59,746,715	0.19
8900	1,674,622	192,045	-7.72	300,964	90,324	-2.33
Revenue	**71,861,247**	**74,418,494**		**76,735,640**	**77,457,803**	
1000	33,813,456	32,255,478	-0.05	36,538,055	35,532,633	-0.03
2000	15,138,088	13,016,906	-0.16	14,730,546	13,918,605	-0.06
3000	16,759,782	17,129,255	0.02	18,498,680	17,443,148	-0.06
4000	1,712,204	1,306,878	-0.31	1,426,535	1,320,482	-0.08
5000	8,497,705	6,174,689	-0.38	8,659,974	8,331,194	-0.04
6000	437,778	364,791	-0.20	370,176	567,612	0.35
7000	917,152	983,022	0.07	1,366,535	1,454,104	0.06
Expense	**77,276,165**	**71,231,019**		**81,590,501**	**78,567,778**	
Difference	**-5,414,918**	**3,187,475**	**2.70**	**-4,854,861**	**-1,109,975**	**-3.37**

Sources: Annual CCFS-311 for budget
Audit reports for actuals

These variances are a major concern and were a topic in most interviews conducted by FCMAT. Because the fiscal picture each year has been consistently better than the budget indicated, there is a lack of trust in the annual financial outcome. The cause of these variances is clear: budgets are not being updated as the year progresses. The greatest variances have occurred in the salary and budget categories. To correct this, the district should discontinue its practice of fully budgeting for positions that remain unfilled or that are filled by lower cost substitutes.

State guidelines indicate that college districts should designate 3% to 5% of the total unrestricted budget as a reserve for economic uncertainty. Boards can also designate other amounts for specific uses, such as equipment replacement or potential salary increases. After designations, any remaining funds constitute the undesignated fund balance. For example, the district's board has designated a reserve for current salary negotiations. This means that the funds exist for the expenditure but will not be budgeted until it is certain that the expenditure will occur in the current year.

Recommendations

The district should:

1. Forecast and verify revenues and expenditures monthly.
2. Ensure that budget monitoring systems are in place to allow both colleges and the district office to prepare monthly budget reports containing valid updates of the net ending fund balance.
3. Implement a formal system to authorize budget transfers and revisions during the year so that the budget shows actual revenues and expenditures.
4. Determine the best single financial system for the district and purchase it, or add modules and capacity to the current Datatel system, with the goal of producing uniform, accurate and reliable financial data.
5. Provide training for all department heads and managers on how to run budget reports from the Datatel system and how to monitor their budgets. Discontinue use of the Paris system for reports as planned, and begin using the Datatel report writer module for all budget reports.
6. Ensure that site administrators and department managers monitor and manage their budgets. Annual performance reviews for these employees should include an evaluation of their fiscal management.
7. Adjust budgets during the fiscal year as additional information becomes available.
8. Compare budget to actuals at least quarterly; revise estimates as needed.
9. Track the anticipated net ending fund balance, which should be more accurate as a result of improved budget monitoring.
10. Implement and maintain tools and processes that provide early warning of any discrepancies between the budget projections and actual revenues or expenditures.

Multiyear Financial Projections

Multiyear financial planning promotes long term fiscal stability and can significantly reduce the risk of unexpected budget difficulties. FCMAT measures performance in this area by examining the following:

1. The accuracy of financial projections.
2. The process for updating projections when assumptions change.
3. How projections are used to make decisions.

Financial planning should include the current year budget, short and long range capital expenditure plans, and other long term goals of the college. Multiyear financial projections (MYFPs) are an important planning tool because they show the long range impact of current decisions. An MYFP should be easy to understand and should be provided to the board and public to allow informed comment from the board, staff and the public.

The district does not currently prepare comprehensive MYFPs to determine the impact of current spending patterns on future years, with the exception of "what if" scenarios for contract negotiations. While this lack of MYFPs has not been unusual for community college districts in the past, the recent decline in FTES and related state apportionment revenues increases the need for MYFPs.

The district's business office should prepare MYFPs and modify them several times each year. The MYFPs should be a formal part of the budget review process to ensure that the budget is fiscally stable for both the short and long term. When the college is negotiating with bargaining units, the MYFPs can provide a basis for any "what if" scenarios that may arise. MYFPs should be based on a variety of information, including the following:

- Demographic trends to project enrollment and FTES patterns.
- Historical information, economic analysis, and financial indicators prepared by the state, universities and private entities to project FTES and other revenue and expenditure data.
- Program and legislative information to estimate revenues for categorical programs.
- Expenditure assumptions based on contracts with bargaining units, vendors, health benefit providers and other sources.

The district's funding has fluctuated in recent years because of fluctuations in FTES. In 2004-05, the district was 320 credit FTES over cap, but in 2005-06 district credit FTES declined from 17,100 to 16,137, a loss of 963 FTES according to the 2005/06 Annual Attendance Report (CCFS-320) filed July 15, 2006.

Stability funding in the amount of $3,558,073 was provided in 2005-06, so the district lost no funding in that year. The district has three years to restore the FTES to the base level of 17,100 without limitation on the growth cap. The district will lose or retain all of the $3,558,073 stability funds in 2006-07, 2007-08 and 2008-09 in proportion to how much of the 963 FTES loss is made up during those three years. If all 963 FTES are made up and the base credit FTES fully restored, no permanent funding loss will occur; however, if no FTES are made up, the district's base funding will decrease by the full $3,558,073. In the 2006-07 fiscal year, this dollar amount is removed from the district's base, but it is possible to fully restore it within a three year period.

FCMAT developed two MYFPs, which differ only in FTES assumptions. The more conservative MYFP contains the following FTES assumptions:

- The district will recover the credit FTES at a rate of 321 credit FTES per year over the three year period and thus be back at 17,100 FTES in 2008-09. This will result in the recovery of approximately one third of the funding loss each year until the funds are fully recovered in 2008-09.
- The noncredit FTES level will remain relatively constant at approximately 631.84, the number listed in the district's 2005-06 Apportionment Attendance Report (CCFS-320).

The less conservative estimate assumes the following:

- The district's credit FTES will be fully restored to the former base level of 17,100 in 2006-07.
- The district will achieve annual paid growth of 250 FTES, or approximately 1.5%, in 2007-08 and 2008-09. The actual growth cap depends on a number of factors, including adult population change and high school graduation rates. A review of growth cap percentages back to 2000-01 suggests that the projected 1.5% annual growth rate is reasonable.

Common to both MYFPs are the following:

- The School Services of California Dartboard is used to calculate lottery, cost of living adjustments (COLA), and consumer price index (CPI).
- An annual increase of 5% in secured taxes revenue.
- An annual increase of 2% in unsecured tax revenue.
- An increase in certificated instructional salaries that is consistent with past trends.
- An increase of $4.7 million in full time certificated noninstructional salaries in 2007-08.
- Sub fund 17 is budgeted as continuing in future years, although there are recommendations to change this practice later in this report
- Contingency reserve is budgeted as increasing by $175,000 annually until the 3% goal is reached

The details of both MYFPs can be found in Appendix B. The MYFPs include actual data for fiscal years 2003-04 and 2004-05, and projected actuals for 2005-06. The tentative budget for 2006-07 is used as the base year of the projection; 2007-08 and 2008-09 are the projection years.

FCMAT's financial forecast shows that under either scenario the district will be able to maintain the 5% reserve recommended by the State Chancellor's Office, as well as the current board designations and contingencies.

Table 6: MYFP Ending Fund Balance Comparison, Different Scenarios

Meet base by 2006-07	18,964,707	15,011,745	11,660,237
Meet base by 2008-09	16,592,634	13,134,784	10,004,368
Additional Fund Balance if Base met in 2006-07	$2,372,073	$1,876,961	$1,655,869

If credit FTES are not fully recovered in 2006-07, one option to recover all or a portion of lost revenues is to roll back summer 2007 FTES into the 2006-07 year. Because this strategy can fail if not properly managed, it should be accompanied by a tactical plan for growth and recovery of the rolled back FTES in 2007-08.

Recommendations

The district should:

1. Prepare comprehensive multiyear financial projections to determine the impact of current spending patterns on future years.
2. Update multiyear projections several times during the year as new information and actual activities indicate the need for adjustments to the projection.
3. Use multiyear projections to provide sound data as a basis for decisions, especially when a significant multiyear financial commitment is contemplated.
4. Ensure that budget spending plans show what will actually occur rather than what should occur.
5. Consider rolling back summer 2007 FTES to the 2006-07 year if FTES are not fully recovered in 2006-07. This would allow the district to recover all or a portion of the FTES and associated revenue loss. Ensure that if this strategy is adopted there is a plan for growth and recovery of the FTES in 2007-08.

Organizational Issues

Reporting Structure

The district's business operations are decentralized: each college operates more or less autonomously, with little direction from the district. Each college has a dean or vice president who is responsible for the budget. These positions report to their respective college presidents; they have no responsibility for reporting to the district vice chancellor's office. This reporting structure is not uncommon and has created strong relationships within each college; however, it has hampered districtwide financial process as well as communication, accountability and efficiency with and in the vice chancellor's office.

Although the positions overseeing finances at each college report directly to their college president, they must still follow, and are held accountable for, district policies and procedures set by the vice chancellor's office. High turnover in the district's position of Vice Chancellor of Business Services has contributed to the current business and reporting structure, and to the lack of consistent business leadership, training, processes and procedures.

The feeling of distance and the inconsistency that currently exist at both college can be lessened by modifying the reporting structure so that the college business offices continue to report directly to their respective college presidents but also have partial reporting responsibilities and accountability to the vice chancellor's office. On an organizational chart, this partial reporting relationship would typically be shown as a dotted line. This change can also foster teamwork and accountability to ensure that data is accurate and that it meets districtwide reporting requirements. A change to shared reporting responsibility will require the support of each college president; if the change is not effective and does not improve communication and standardization, the college presidents should also be held responsible. Communication can also be improved by regular meetings of district and college business staff.

A different approach involving a greater change is to have the dean and vice president at each college report directly to the district business office. This approach should only be considered if the shared reporting structure is not effective and/or if the colleges do not embrace the standardization of policies and procedures

Recommendations

The district should:

1. Consider having each college business office report in part to the district business office.
2. Evaluate the advantages and disadvantages of having business office personnel at each site report in part to the district office, or a greater change to a centralized structure in which the dean and vice president of each college report directly to the vice chancellor.
3. Ensure that any revision to a college's organizational structure is clearly delineated so that it shows management and decision making authority partially at the district level.
4. Consider changing the reporting structure so that the dean or vice president at each college who has primary responsibly for budget and finances reports directly to the college president and partially to the district vice chancellor. This change will increase accountability, communication and efficiency with and in the vice chancellor's office, and provide consistent districtwide procedures and oversight while maintaining each position's ability to complete their college's budget and accounting transactions. If districtwide business procedures are not followed, a college president should also be held accountable.
5. Ensure that the district and college business staff meet at least every two weeks to discuss issues, policies and procedures. Meeting locations should alternate between the two colleges every two months.

Definition and Understanding of Internal Controls

Internal controls are the foundation of sound financial management. It is important for any district to prevent internal controls from being overridden by management; ensure ongoing state and federal compliance; provide assurance to management that the internal control system is sound; help identify and correct inefficient processes; and ensure that employees are aware of and follow internal control procedures.

The following components are essential to an effective internal control structure:

A system of checks and balances involves procedures to initiate, approve, execute, record, and reconcile transactions. The procedures should also identify the employee responsible for each step and the time period within which it should be completed. Areas in which checks and balances should be in place include payroll, purchasing, accounts payable, and cash receipts.

Segregation of duties means that no single employee should handle a transaction from initiation to reconciliation and no single employee should have custody of an asset and maintain the records for the related transactions.

Cross-training of staff ensures that there is always more than one person able to perform a given job function and that all staff members take vacations during which another staff member performs their duties.

Use of prenumbered documents means that checks, receipts, purchase orders, receiving reports and tickets are all preprinted by an outside printer. In addition, physical controls should be maintained over the check stock, signature plate, cash receipt books and tickets, and a log of the documents and numbers should be maintained and reconciled periodically.

Security over assets requires that cash be deposited daily, computer equipment be secured, and only designated employees be given access to supplies/stores, food stocks, tools and gasoline.

Timely reconciliation of bank statements and account balances should be carried out by a person who was not involved with the original transaction and recording.

A comprehensive annual budget should include detail regarding revenues and expenditures by college site, department and activity. The information should be sufficient to identify variances, determine if goals were achieved and evaluate performance. Material variances in revenues and expenditures should be investigated.

Inventory records should identify items and quantities purchased and items and quantities requisitioned or sold. A physical inventory and reconciliation should also take place periodically. Typical inventoried items include computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts, and student store goods.

Procedural manuals also help ensure proper internal controls by increasing employees' understanding of processes and responsibilities.

Every employee should receive an annual performance evaluation performed by a manager or supervisor. Evaluation criteria should be measurable and clearly communicated. The evaluation process should include follow-up on any prior performance issues and goals to improve future performance. Managers and supervisors should be held accountable for evaluating employees annually.

Recommendations

The district should:

1. Ensure that a system of internal controls is in place. This includes ensuring that no single employee handles a transaction from initiation to reconciliation and that no single employee has custody of an asset and maintains the records for the related transactions.
2. Cross train staff members so that there is always more than one person able to perform a job. Employees should also be required to take vacations, during which another staff member performs their duties.
3. Use prenumbered documents, maintain a log of the documents and numbers, and perform periodic reconciliations.
4. Secure all assets.
5. Perform reconciliations for all bank statements and account balances. This should be done by a staff member who was not involved with the original transactions.
6. Use comprehensive budgeting, and investigate material variances in revenues and expenditures.
7. Maintain inventory records that identify the items and quantities purchased and the items and quantities requisitioned/sold. A physical inventory should be performed periodically and reconciled with inventory records.
8. Prevent internal controls from being overridden by management.
9. Continue to ensure compliance with state and federal statutes, regulations and program requirements.
10. Assure management that the internal control system is sound.
11. Identify and correct inefficient processes.
12. Ensure that employees are aware of the district's expectations regarding proper internal accounting controls.
13. Communicate to employees any changes in expectations and work procedures before the changes are implemented; ensure that employees understand the standards by which they will be evaluated.
14. Hold managers and supervisors accountable for timely employee evaluations and for following up on areas that need improvement.

Staff Development and Training

When consistently followed, employment guidelines ensure that only qualified employees are hired or assigned to accounting and business positions. Screening, testing, interviews and other procedures help ensure that the most qualified candidate is selected.

The district currently lacks a professional development plan for college and district personnel. There is a lack of systematic training program for employees, and professional development is not consistently integrated into employees' evaluations. All new and existing employees, including supervisors at the college and district level, need training and need to have expectations communicated to them. Training is of particular value whenever processes or procedures are changed or updated in a way that affects employees' job duties. Having district and college business staff attend the same training and staff development activities can help foster districtwide unity. Staff development can include in-house training, one-on-one mentoring, and outside workshops and conferences.

Classified staff do not currently receive annual in-service training before the start of each school year. Annual training can help employees learn procedures and expectations.

Employees' progress and completion of training and professional development activities are not consistently noted in their personnel records, and there is a lack of consistent recognition of employees for these accomplishments.

Business department staff members do not currently receive cross training. Cross training helps departments perform effectively even when employees are absent and enables employees to perform tasks outside their normal duties when necessary. By allowing employees to work in different areas of the business department, cross training can also stimulate professional growth and development, which benefits both the employees and the district.

Recommendations

The district should:

1. Recruit and hire only highly qualified managers and staff.
2. Ensure that both new and existing employees receive adequate training. Topics should include relevant business procedures and internal controls.
3. Implement and use a professional development plan for district and college personnel, with input from the business offices at the district and both colleges so that training in relevant business procedures and internal controls is included. Update the plan annually.
4. Provide an in-service training for classified staff at the district and colleges before the start of each school year. Staff members who work with the business departments regularly should receive information regarding policies, procedures,

responsibilities and expectations related to business functions. Information about who to contact for various services should also be provided.

5. Develop a survey and distribute it to classified clerical and secretarial staff so they can provide input on potential areas for training.
6. Develop individual professional development plans for each employee, based on his or her unique needs as determined by a survey.
7. Include an employee-developed individual professional development plan in employees' evaluations, in addition to any training needs identified by the supervisor. Subsequent evaluations should address the completion of identified training needs and document updated plans.
8. Note in employee's personnel files their completion of staff development as listed in the professional development plan; implement a system for consistently recognizing employees' accomplishments.
9. Require employees to attend training that their supervisor has identified as necessary to improve job knowledge.
10. Establish informal one-on-one training sessions as new processes and procedures are required of staff. Distribute written directions as a reference.
11. Consider holding training sessions at the colleges instead of requiring site personnel to travel to the district office.
12. Ensure that cross training is provided to district office employees so that functions can be carried out if an unexpected absence occurs.

Communication

Effective district and college business departments communicate regularly with district staff, college sites and all departments regarding their responsibilities for accounting procedures and internal controls. The communication is usually written, particularly when it affects many staff, is of high importance, or indicates a change in procedures. An effective business department will be responsive to the needs of its customers and encourage a free exchange of information.

The district's administrative team does not currently receive information annually regarding each department's functions and leadership. This should occur. The information should include an organizational chart so that both college and district staff know who to contact when needs arise. Typically, this information would be provided at the annual meeting or retreat before the start of the school year. The goal is for all administrators know the responsibilities of all departments and what each department needs to be successful.

The district has not distributed a reference guide to employees since the 2003-04 academic year; however, a new reference guide is being drafted. It is important for all employees who interact with the business department and who are its customers to understand what the business department does and what information the business department needs so that it can better serve them.

The following information and topics should be included in a reference guide:

- Fiscal Services staff directory.
- Fiscal Services staff assignments.
- List of forms and where to find them.
- Fiscal Services procedures.
- Budget transfers.
- Competitive bidding requirements.
- Deposit of funds received.
- Deposit of gift funds received.
- Equipment inventory.
- Expenditures for certain designated purposes.
- Expenditure transfers.
- Facility use permits.
- Gifts.
- Insurance certificates.
- Instructional materials fund and technology based materials.
- Mileage reimbursement.
- Payment vouchers.
- Purchase order requisitions.
- Revolving fund.

- Stolen or vandalized equipment and material replacement.
- Time cards.
- Travel and conference.
- Appendix.

Recommendations

The district should:

1. Compile information to be distributed to the administrative team annually.
2. Complete a reference guide and distribute it to the colleges and district office annually. This useful guide will help staff better understand processes, procedures and expectations, and improve communication and the relationship between the business department and its various customers.
3. Update the reference guide as needed. Review the guide at least annually.

Business Office Desk Manuals

The district lacks written desk manuals, standard operating procedures and other specific reference documents in the business office. Although some employees may know their jobs well enough to function without these manuals, there are drawbacks to this approach. Employees may become so accustomed to their jobs or to a certain level of productivity that change becomes difficult. A lack of documented procedures can also hinder operational continuity in the case of employee absence or turnover. The district may wish to assign each business office employee the task of developing one standard operating procedure a month until all the assigned duties for each position have associated written procedures.

When developing desk manuals and reviewing current practices, the district should ensure that it adheres to the Budget and Accounting Manual (BAM) and Generally Accepted Accounting Principles (GAAP) as required by Education Code Section 84030. Adherence to BAM and GAAP helps ensure that transactions are accurately recorded and financial statements are fairly presented. To accomplish this, the timely and accurate recording of the underlying transactions, including revenue and expenditures, is essential.

Standard accounting practices require accounting work to be properly supervised and reviewed to ensure that transactions are recorded on time and accurately, and to allow for the preparation of periodic financial statements.

Recommendations

The district should:

1. Develop written desk manuals, standard operating procedures and other specific reference documents in the business office, so that information about how processes and duties are completed is readily available.
2. Consider assigning each business department employee the task of developing one standard operating procedure a month until all the assigned duties for each position have associated written procedures. Other departments within the district office should also consider this plan.
3. Ensure that accounting work is properly supervised and reviewed.

Allocation Model

In multi-college districts, the district provides primary leadership in setting and communicating expectations of educational excellence and integrity, and ensures support for operation of the colleges. The district establishes clearly defined roles of authority and responsibility between the colleges and the district and acts as the liaison between the colleges and the governing board.

The district is responsible for the fair and equitable distribution of adequate resources to support the operation of the colleges. In any multi college district, the question of how to allocate resources is always under discussion, and the West Valley-Mission Community College District is no exception. There are likely as many variations in allocation methods as there are multi-college districts in the state of California.

Before the 1994-95 fiscal year, the district did not have a formally adopted, documented allocation model. The board of trustees directed the district budget advisory committee (DBAC) to develop such a model by the end of 1993. The model was developed, documented and presented with the 1994-95 final budget in the fall of 1994.

The board directed that the model meet the following criteria:

1. It must be simple enough that all parties in the district can understand the model.
2. It must be perceived as fair by all parties in the district.
3. It must be responsive to the changing revenue picture from the state.
4. It must be responsive to changing community needs and the long range goals of the district.
5. It must be fiscally prudent.

The basic model is shown in Appendix C.

The allocation model has evolved over the years and there have been some changes in how it is applied. The flow chart in Appendix C shows how funds are currently allocated to the colleges and to district services.

A revenue model gives no consideration to needed expenses or financial obligations; it merely divides revenues received among existing cost centers. Revenue is received from the state in the form of general apportionment and from various categorical sources, then distributed to the two colleges and to district services.

An expense based model concentrates on costs. All cost centers prepare budgets; college cost center budgets are combined to produce a college budget which reflects the expenditures needed to provide the planned level of services. Actual revenue may exceed or fall short of what is needed for these expenditures, in which case adjustments are made so that revenues match expenditures.

College districts are funded on a revenue basis, while budget planning at the operational level is on an expense basis. This requires the use of revenue based and expense based allocation models, which must be aligned so that revenues received equal expenses incurred. Competing priorities must be managed wisely to effectively further the district's primary mission.

The district currently uses a rollover budget process, which carries over dollars received in the prior budget year without detailed analysis of needs based on revised plans, goals and anticipated service levels. The budget allocation model subcommittee's (BAMS') February 6, 2006 meeting minutes state, "College staff indicated that they are not currently submitting line item budgets since the budgets have been rolled over from year to year."

The BAMS was formed based on a June 2003 recommendation from the DBAC. Its purpose was to review and revise the budget allocation model, and to develop and identify a philosophy and objective for the model.

In March 2004, as part of its budget priorities, the board of trustees identified the need for a new allocation model, and stated the following:

> [The district is to] pursue the development of a budget allocation model to assist in developing sound fiscal practice that will provide objectivity, equity, and stability to the operations of the district. The district will implement a model that includes a formula for establishing the level of FTE of classified, administrators, counselors, and librarians needed to support the district's operations [and to] achieve the 75% full-time/part-time faculty threshold through a carefully selected variety of methods."

To accomplish this, the BAMS was formed. At a meeting on April 20, 2005, the subcommittee discussed three types of models: standard-driven, block grant, and program-based. Focus was placed on the standard-driven model, which would involve identifying the following factors by department:

a) Tasks performed.

a) Customers.

c) Work drivers, including space, people, students and other factors.

d) Service level currently funded, such as the response time for a work order under current funding and staffing levels.

In April 2005, it was anticipated that a new model could be implemented for the 2006-07 budget year. Discussions continued through the spring and summer of 2005, including an April 2005 meeting led by the interim vice chancellor. The July 2005 meeting was apparently the first meeting attended by the district's then new permanent Vice Chancellor of Business Services, who suggested that a more realistic goal would be implementation in 2007-08 or 2008-09.

During the subcommittee's July 2005 meeting, members also expressed the following points:

- Procedures should be established along with the development of the new model.

- Credible leadership will be needed to ensure successful adoption of the new model, especially if the new model requires changes in organizational culture.
- Leadership and support from the board and educational management team (EMT) are essential for success.
- The subcommittee needs to be more structured and focused in their approach.
- Timelines need to be developed and adhered to.
- Development of the model needs to take a more unified, collective approach that includes members of both colleges and the district.
- Regular communication among the committee, the EMT and the board is needed to minimize wasted efforts.
- Development of the model needs to include enrollment management as well as all other significant operational components.
- Matters such as accountability, carryovers, and year end surpluses and deficits need to be addressed.

The extent of follow up and efforts to address these points is not clear.

The subcommittee met several more times in the fall of 2005 and winter of 2006, resulting in an activity-based costing model which was ultimately presented to both colleges in the form of a concept paper (see Appendix D). The results of those presentations were recorded in the minutes of the subcommittee's February 15, 2006 meeting.

The committee remained interested in adopting and using the new model, at least on a pilot basis with some departments, for the 2006-07 budget year. However, there was not agreement from the Mission College division chair council, due to concerns about the negative impact of the model on that college's revenue as a result of enrollment decline. Concern was also expressed about the involvement of Mission College faculty and staff in the development of the proposal.

The committee determined that there was not sufficient time for any implementation of the model in 2006-07 and stated, "Based on the timeline to develop the budget for the current year, the district budget office will cease working on BAMS."

The status of the proposal was presented to the DBAC on March 1, 2006, at which time the vice chancellor reported that BAMS was at a crossroads and, "West Valley College is accepting the activity-based costing process and Mission College is not."

There is no formal record of any further action on this issue, and no new proposal currently in progress. The 2006-07 operating budget is best characterized as a rollover budget.

The inability to effect change has resulted in resource allocation based more on custom and tradition than current program needs.

District and college staff have spent a significant amount of time developing an allocation model over the past two years. Regardless of what the final model is, a decision needs to be made either to continue using the current model or to adopt a different model. No one model will completely satisfy all participants, but inaction is unproductive and leads to additional difficulties. The executive management team should continue striving to comply with the board's direction of March 2004 and continue working to meet the allocation model goals established in 1994. Regardless of which model is chosen, the use of rollover budgeting should be discontinued.

Although there are many methods of allocating resources to sites in California's multi-college districts, all methods ultimately require the district to determine the best way to measure service levels, whether it be by FTES, head count, or ratios of some type. In 1986, the AB 3409 task force identified workload measures to be used to allocate new program-based funding dollars to districts. Those measures were FTES, new head count, continuing head count, and facilities square footage. In cases where these measures were not applied, ratios were used to identify allocations to support activities such as budgeting and accounting, payroll and other administrative functions

There is no requirement to spend the dollars in the manner allocated; the program-based funding model is used for allocation purposes only. It is intended to portray the need for resources to support the colleges' primary mission in a more straightforward and understandable manner through the use of workload measures and standards. However, the model has been overly complex, cumbersome, and resource-intensive. It is administered by the State Chancellor's office staff and is not well understood by those who do not deal with it on a daily basis. Local districts face similar challenges in identifying a means of allocating resources to their colleges and centralized services.

Some multi-college districts use the program-based funding model to allocate revenue to their colleges and to support the activities of central district services. The same workload measures are used to allocate revenue to colleges within the district and to allocate dollars to the district as a whole. District services and maintenance and operations are funded either "off the top" or an through assessment on each of the colleges.

Following are elements and characteristics of a successful allocation model:

- The allocation system is as simple as possible so that it is understood and addresses as many inequities as possible. General agreement on its application is also important.
- Funds to be distributed through the allocation model are identified, including apportionment, lottery, non-resident tuition, and interest income.
- FTES service levels are projected for each college and for the district as a whole, and are converted to weekly student credit hours (WSCH).
- Allocations for maintenance and operations, district operations and the district reserve are established independently from the allocations to the colleges. Any increases are justified and supported through the shared governance process. If these allocations are made first, it is understood that they will be subject to a final review after the allocations to the colleges have been determined. Another approach is to allocate all dollars to the colleges, then assess each college an amount to fund necessary and agreed upon district services. In either case there is recognition of services provided and resources required.

- Allocation for noncredit FTES are made separately because the apportionment funding differs from credit FTES. This is not a significant allocation for the district because the noncredit FTES is relatively small.
- Because salaries and benefits are major expenditures, an allocation should be made to each college for these costs. Each college receives a fixed staffing allocation for instructional faculty. The required faculty resources are determined based upon FTES and WSCH targets, and assume a particular level of WSCH/FTE to calculate the number of full time and part time faculty required. Once the FTES for each college is determined and converted to WSCH and a ratio of WSCH per full time equivalent faculty (FTEF) is established, the FTEF can be computed. If the current full time FTEF at each college is not proportional to the FTES, a method already in place is used to correct this inequity.
- Each college receives a fixed FTES allocation for all other staff needs. This allocation could be based upon FTES but could also include other considerations. Any conversion of discretionary dollars to permanent staff should require the approval of the Chancellor. This provides some oversight before a permanent obligation is incurred.
- Remaining funds can be distributed using either a one step process or a two step process. A two step process consists of a block grant to each college and another amount per FTES. The two step approach can resolve inequities resulting from size differences or be a means of providing for extraordinary program costs. A one step process simply provides an allocation amount per FTES.
- Any allocation model must maximize flexibility and be as objective and equitable as possible. It must clearly define responsibilities and hold all parties accountable for their actions. The model should reflect and enhance the district's mission and goals. It should foster strong collaboration and cooperation between the colleges and the district office.

Recommendations:

The district should:

1. Refer to the executive management team (EMT) the matter of the allocation model that the DBAC was unable to resolve through the shared governance process. The EMT should strive to comply with the board's directions of March 2004.
2. Build on the good work, effort and thought invested by members of the DBAC and others in the shared governance process to develop an allocation model. Continue working to meet the allocation model goals established by the board of trustees in 1994.
3. Eliminate the practice of simply rolling over department and college budgets from the previous year. This practice has resulted in unfilled positions being budgeted and ending balances greater than budgeted, which has damaged the credibility of the budget data and process.
4. Ensure that the Chancellor assigns specific responsibility and delegates authority to appropriate senior staff members to develop policy and process allocation recommendations for review by EMT members.

The 50 Percent Law and Calculation

Review of the 50 Percent Law

Education Code (E.C.) Section 84362 requires all California community college districts to spend at least 50% of their current expense for education on salaries of classroom instructors. Only expenditures from the unrestricted portion of the general fund are included in the calculation. The intent of the 50% law is to ensure that public funds are allocated for instruction rather than administration or other support functions.

The 50% law and the implementing regulations in the California Code of Regulations (CCR) Title 5, beginning with section 59200, provide for exemptions under certain circumstances. If the district spends less that the required 50% for salaries of classroom instructors, the district board of trustees may apply for exemption. If no application for exemption is made, the designated amount or amount not exempted shall be added to the amount to be expended for salaries of classroom instructors in the next fiscal year.

Under Title 5 of the CCR, Section 58058(b), the district may contract with employees of public or private agencies for instructional services. In many circumstances, this arrangement will demonstrate that a special or dual employment relationship exists between the district and the instructor, and the amount the district pays to the instructor may be counted as the salary of a classroom instructor. This practice is commonly used for instruction such as apprenticeships, police training and fire training that requires instructors with specialized skills.

E.C. Section 84362 was adopted in the early 1960s when institutions then known as junior colleges were part of the K-12 system and the primary focus of faculty was on classroom instruction. Today's community colleges are very different. Faculty members now serve on academic senates; are involved in curriculum planning; participate in hiring and evaluation; help establish district policy on academic and professional matters; and participate in district and college budget development.

In the 2004-05 fiscal year, the district did not meet the requirements of the 50% law. This was primarily due to negotiated salary agreements that were not reached until late in the 2004-05 fiscal year and not posted and paid until August and September of the 2005-06 fiscal year.

The district's noncompliance in 2004-05 was noted as a finding in the independent audit, as required. The district fell short of the 50% requirement by 1.84%, or $1,336,540, and did not apply or qualify for an exemption. The Chancellor's office requested and the district made two additional submittals for the 50% law, which were completed by the due dates of December 31, 2005 and April 1, 2006, respectively.

The law states that no later than two years after the year of the deficiency the district must add to the amount to be expended for salaries of classroom instructors any expenditure deficiencies that were underreported and not exempted. FCMAT's review of the district's preliminary 50% calculation for the 2005-06 fiscal year shows that the district has included the expenditure deficiencies from the prior year and meets the minimum requirements, with instructional spending at 52.87%.

It is FCMAT's understanding that pending litigation exists between the district and faculty senate regarding the 50% law. FCMAT renders no opinion or interpretation regarding this matter.

Defining Classroom Instruction

Education Code section 84362 (formerly 1959 E.C. Section 17503) governs funding for salaries of classroom instructors When enacted in 1961, it applied to teachers in both K-12 school districts and junior colleges, and defined a classroom instructor as follows:

> An employee of the district employed in a position requiring minimum qualifications and whose duties require him or her to teach students of the district for at least one full instructional period each school day for which the employee is employed.

When enacted, E.C. Section 17503 could be applied with a degree of precision because the majority of a classroom instructor's workload consisted of teaching in a classroom. Additional statutes and regulations, including the Educational Employment Relations Act (EERA) and provisions of AB 1725 (Chapter 973, Statutes of 1988), have made the interpretation more difficult and complex. The description of classroom instructors in E.C. Section 84362 is less definitive in the context of community college instruction. Unlike teachers in the K-12 system, who can be in the classroom all day, five days per week, community college faculty usually are not in the classroom every day and a percentage of their work is accomplished outside the classroom through activities such as office hours, curriculum development, various leadership roles, and participatory governance.

In the context of E.C. Section 84362, legislative history appears to demonstrate that the objective was to decrease class size in California's public schools rather than guarantee any particular level of compensation.

Only expenditures from the unrestricted portion of the general fund are included in the 50% calculation. The following is a summary of the calculation and the types of expenditures that are included and excluded in the calculation:

Current Expense of Education			
CEE = Instructional Expense + Non Instructional Expense = 50% Ratio			
A.	Instructional	$14,200,000	50% Ratio = row A divided by row C, or 52.59 %
B.	Non Instructional	$12,800,000	
C.	Total CEE	$27,000,000	

Expenditures Included:

1. Amounts expended for the full or prorated portions of salaries of all faculty paid on the salary schedule for contract or regular instruction.
2. A portion of salaries paid for instruction by full or part time instructors employed by the district. In accordance with the California Community Colleges Budget and Accounting Manual and the CCFS 311, this includes instructional expenditures related to objects 1100 and 1300. Among these are expenditures for substitutes; extra duty; preparation and evaluation of classroom work; extracurricular activities or extensions of classroom work; pay for instructors on sabbatical; duties assigned to faculty personnel for issues related to work experience or field trips; intermittent duties in connection with committee work; in-service training; and contract employees.
3. Instructional aides engaged in direct classroom activities under the direct supervision of a classroom instructor. (5 CCR Section 59204(a)(2)(B).
4. Benefits of instructors and instructional aides per E.C. Section 84362(c), 5 CCR Section 59204(a)(2)(B).

Expenditures Excluded:

Because of the impact of the 50% law, it is important that colleges properly code and allocate all expenditures between object and activity levels. The following types of expenditures are excluded because they are not part of the unrestricted general fund, or because they relate to object codes above 5999 or to activity codes 6799.

1. Administrators and supervisors coded to object 1200, unless faculty or department chairs are providing instruction in the classroom.
2. Student transportation, food services, and community services.
3. Expenditures for sites, buildings, books and media, new equipment, and lease agreements for equipment and plant operations.
4. State and federal grants to students and for student employment.
5. Health services maintenance of effort costs exceeding any available health fee and amounts expended from state lottery proceeds. These exclusions only appear on the CCFS 311 form.

Under Title 5 of the CCR, Section 58058(b), the district may contract with employees of public or private agencies for instructional services. In many cases the amounts paid to these instructors may be counted as salaries of classroom instructors. In June 2005, the Chancellors office provided an advisory and revision of the CCFS 311 50% law calculation to capture amounts paid to instructors under such arrangements.

The district did not meet the expenditure requirements of the 50% law in the 2004-05 year. Preliminary calculations show that the district will meet the requirement for the

2005-06 year. The district's task for the 2006-07 year will be to maintain compliance with the 50% law.

FCMAT's review of district budget documents indicates that meeting the faculty obligation number (FON) could pose a significant financial challenge. The California Code of Regulations (CCR), Title 5, Section 51025, requires districts to increase the base number of full time faculty from the prior fiscal year proportionate to growth funds allocated for credit FTES. In addition, AB 1725 states that community colleges should strive to increase the ratio of full time faculty so that at least 75% of faculty are full time.

The district will need to consider the following in its efforts to maintain compliance with the 50% law:

- Ongoing review of the faculty obligation number.
- The impact of collective bargaining agreements.
- Identification of direct instructional aides.
- Decreasing noninstructional expenditures in supplies (4000) and other operating (5000).
- New equipment vs. equipment replacement (equipment is excluded).
- Abatements vs. income, to reduce expenditures instead of reimbursement income.
- A review of charges to activity centers greater than 6799.
- Maximizing the exclusion of lottery expenditures.
- Hiring of instructional vs. noninstructional staff.
- Faculty release time.
- Training of business office personnel.
- Evaluating the district's current decentralized business model and comparing it to a centralized business model.

The 50% law and appropriate expenditures are currently being discussed by the district budget advisory committee (DBAC). The DBAC recently reviewed a proposal to track the expenditures of counseling positions under activity code 6310 against lottery revenues rather than against the unrestricted general fund. Because lottery expenditures are excluded from the 50% law, and because salary expenditures for instructional assignments outside of the classroom, such as counselors and librarians, do not count as salaries of classroom instructors, this recommendation would reduce unrestricted general fund expenditures for noninstructional positions and improve the district's ability to comply with the 50% law.

The district will need to plan carefully and create an awareness of these districtwide issues at both colleges in order to meet FTES enrollment base while maintaining adequate faculty staffing and complying with the 50% law. Each college needs to understand the overall fiscal impact on the district rather than engaging in isolated efforts to comply with the 50% law. As detailed earlier in this report, the district will need to review factors such as its organizational structure and the responsibilities of business personnel at each site. Any proposed changes to the organizational structure should clearly delineate management and decision making authority at the district level, which would be commensurate with their responsibilities.

Recommendations

The district should:

1. Approve and implement the recommendations made to the DBAC and other shared governance entities to track salaries and a proportionate share of benefits for counselors by sub fund against lottery revenue. This process will improve the district's ability to comply with the 50% law by maximizing eligible instructional expenditures.
2. Conduct joint quarterly reviews or internal audits with both colleges to review the 50% law calculation, and to review position control postings to ensure that they are within the proper object and activity levels. This will reduce errors, year end journal entries, and compliance issues.
3. Continue to review any deficiencies with the district's independent auditor annually.
4. Consider organizational changes recommended earlier in this report to centralize business decision making and reporting, including oversight related to the 50% law.
5. Recognize any settlement costs for compensation in the closing process, and account for these costs by establishing the proper accrual or liability. Record expenditures when the related liability is incurred.

Evaluation of Sub Fund 17 in the Unrestricted General Fund

In accordance with E.C. Section 84040, the board of governors is required to adopt criteria and standards for periodic assessment of the fiscal condition of each California community college. A primary district requirement is the maintenance of a minimum unrestricted general fund balance equal to at least 5% of total unrestricted general fund expenditures. The district uses sub fund 17 of the unrestricted general fund to monitor and carry forward balances for programs that are distinctly different from the educational programs. These programs include hospitality management, printing and duplicating, theater and music programs, and facility rentals. Prior to the 1992-93 budget, these programs were recorded in the restricted portion of the general fund.

Historical Background:

Sub fund 17 was created by the board of trustees in accordance with budget and accounting guidelines established by the Chancellor's office. In the 1994-95 fiscal year, 27 departmental accounts in fund 16, totaling $107,000, were transferred to sub fund 17. In addition, 72 local nongrant accounts were transferred from fund 20 to sub fund 17. These budget transfers accounted for an increases of $146,000 and $54,000 in projected revenues for West Valley College and Mission College, respectively. Since that time, the GASB financial and accounting standards have been implemented and supersede the board's previous policies.

In each subsequent fiscal year, revenue and expenditure projections were based on the actuals from the prior fiscal year. According to district documents, each fiscal year is documented and revenues are generated from programs such as interest income, 2% enrollment fees, balances in corporate training programs, paper recycling, instructional materials card sales, printing, drama, and music and facility rentals. Each college records the type of program generating specific revenues in sub fund 17 by cost center.

The district's policies previously limited carryover of unexpended budget allocations to no more than 10% of the total unrestricted budget. This restriction was established to limit reappropriations and ensure that current year allocations where spent on current year students. Over the years, the board of trustees has been presented with and approved proposals to carry over amounts in excess of the 10% limit.

Before the 2001-02 fiscal year, sub fund 17 was used to account for revenues that were not subject to the budget allocation model for unrestricted funds. In the 2000-01 fiscal year, the district's designated fund balance, or contingency reserve, was $2,217,324. This carryover beginning balance left the district $1,722,428 short of the required $4 million reserve in the 2001-02 fiscal year. Because of this shortfall, the district designated monies from sub fund 17 to meet the reserve requirements. The following amounts were designated to each site:

Mission College	$779,915
West Valley College	$572,880

District Office	$369,633
Total Funds	$1,722,428

The total combined balance of sub fund 17 declined from $2,217,324 in 2000-01 to $494,896 in 2001-02; however, the balance has increased over the past five years. As of August 23, 2006, the district's budget reports show a combined balance of $3,321,445 for the 2005-06 fiscal year.

Abatement of Expenditures vs. Revenue

The abatement of expenditures can be defined as canceling part of all of a charge previously made due to refunds, rebates, resale of materials originally purchased by the entity, or collections for loss or damage of district property. The abatement process applies to both current expenditures and capital outlay expenditures from all funds for the current fiscal year. Tuition receipts, fees and rentals shall not be treated as an abatement of expenditures. It is important that this definition be used when determining whether a receipt is to be recorded as revenue or as an abatement of expenditures.

The main distinction between revenue and an abatement of expenditure is that an abatement cancels part or all of a previous expenditure for the current fiscal year. If a receipt cannot be substantiated as a cancellation of a specific expenditure, it must be recorded as revenue. Receipts that represent cancellations of expenditures are accounted for by crediting the appropriate expenditure accounts, thereby eliminating any credit to revenue accounts. Any receipts in excess of the related expenditure must be accounted for as revenue, not as an abatement.

The district does not currently use separate accounts for abatements that are numerous or involve large amounts. This makes it more difficult to track abatements and expenditures.

According the California Community College Budget and Accounting Manual from the Chancellor's office, the following items are to be accounted for as abatements of expenditure:

1. Receipts from sales of supplies and new materials at cost to other governmental units, including community college districts.
2. Refunds of overpayments made to instructors, vendors, and other employees and payees.
3. Refunds for return of containers, including oil drums, wire spools, and similar items.
4. Refunds from a transportation company for unused portions of transportation fare books, tickets, and the like.
5. Refunds of gasoline tax for nonhighway use.

6. Canceled warrants (excluding outdated and unclaimed warrants, which remain a liability of the district).
7. Abatements against salary for temporary disability payments offset against regular salary.
8. Cancellation of payables over-accrued in a prior period.

The following items are not to be accounted for as abatements of expenditures; they must be accounted for as receipts:

1. Tuition.
2. Fees.
3. Rentals, including fees collected for the use of swimming pools, tennis courts and other facilities.
4. Library fines.
5. Receipts from the sale of surplus property.
6. Donations, contributions or gifts.
7. Receipts from the sale of courses of study.
8. Jury duty fees.

Income generated from entrepreneurial enterprises should have offsetting expenditures that reflect the cost of running the enterprise. Some carryover would be expected in this situation. If the enterprise uses unrestricted general fund dollars instead of carryover amounts to grow the enterprise, it is no longer entrepreneurial and all revenues and expenditures should be part of the unrestricted general fund.

All other sub fund 17 revenue has been generated based on expenditures from the unrestricted general fund and should therefore be deposited into the unrestricted general fund. The idea that an entity other than the district as a whole has ownership of money generated from the normal ongoing operations of the district is inappropriate and should be discouraged.

Use of Enterprise Funds

The Governmental Accounting Standards Board (GASB) publishes comprehensive changes in state and local government financial reporting. GASB was formed in 1984 and is the independent private sector organization that establishes and improves financial accounting and reporting standards for state and local governments.

GASB Statement No. 34 sets forth conditions under which enterprise fund accounting may be used and conditions under which it is required. According to this statement, enterprise funds may be used to report "any activity for which a fee is charged to external users for goods or services." Activities for which enterprise funding is required include the following:

- Activities that are financed with bonds secured solely by a pledge of net revenues from fees or charges for the activity.
- Activities that are subject to laws requiring that the activity's cost be recovered with fees, rather than taxes.
- Activities for which fees are designed to recover costs, as a matter of policy.

Large carryover balances in sub fund 17 indicate that the district's colleges are not using these dollars to enhance programs and student learning.

Recommendations

The district should:

1. Take steps to more accurately record revenues and abatement of expenditures in sub fund 17. Corrections to this process can help the district maximize eligible expenditures to comply with the 50% law.
2. Use separate accounts for abatements that are numerous or involve large amounts so that it is easier to track abatements and expenditures.
3. Consider reviewing the policies and processes for fund 17, and the practices of the colleges regarding these funds; consider adopting new budget policies for these processes. In particular, issues such as types of activities, carryover limits and enterprise funds should be reviewed and new policies established.
4. Ensure that whenever abatements of a particular type are numerous and/or involve large amounts, the credits are made to a contra account instead of directly to the expenditure account. The contra account should be identified as "Abatements of (name of the related expenditure account)" and should be maintained adjacent to the corresponding expenditure account in the expenditure or appropriation subsidiary ledger. The contra account should receive only credit entries for abatements. This procedure avoids the undesirable features of a mixed account and makes it easy to determine gross expenditures, abatements and net expenditures at any time.
5. Ensure that enterprise accounting is used correctly as defined by GASB 34; carryover balances in sub fund 17 indicate that the district's colleges are not using these dollars to enhance programs and student learning. If the enterprise uses unrestricted general fund dollars instead of carryover amounts to grow the enterprise, it is no longer entrepreneurial and all revenues and expenditures should be part of the unrestricted general fund.
6. Ensure that sub fund 17 revenue generated based on expenditures from the unrestricted general fund is deposited into the unrestricted general fund. The idea that an entity other than the district as a whole has ownership of money generated from the normal ongoing operations of the district is inappropriate and should be discouraged.

Fiscal Health Risk Analysis

Monitoring and Assessment of Fiscal Conditions

Background

Education Code Section 84040 requires the board of governors to adopt criteria and standards for periodic assessment of the fiscal condition of California community college districts. In accordance with this requirement, the state chancellors office has established standards for sound fiscal management and a process to monitor and evaluate the financial health of California's community college districts. The purpose of these standards is to identify districts that may benefit from management assistance and districts that may eventually require fiscal intervention. The standards are based on principles of sound fiscal management contained in the California Code of Regulations (CCR) Section 58311.

Financial documents used to assess the district's financial condition include the following:

- Quarterly Financial Status Reports (CCFS-311Q)
- Annual Financial and Budget Reports (CCFS-311)
- Annual District Audit Reports
- Apportionment Attendance Reports (CCFS-320)
- District Response to Inquires
- Other available information (debt reports, fiscal reports)

FCMAT's Fiscal Health and Risk Analysis is based on the following criteria:

Primary Criteria

The general fund analysis includes the review of the district's current, past and projected fund balances. The primary criteria will be the comparison of the unrestricted general fund balance with all expenditures.

The minimum prudent reserve level for the unrestricted general fund balance is 5%. If the district's reserve falls below this level, further review is recommended to determine if additional fiscal problems exist.

Secondary Criteria

Other factors that may affect the district's financial stability include the following:

- Expenditure patterns.
- Full-Time Equivalent Students (FTES).
- Salary and benefit compensation compared to revenue increases\decreases.
- Audit findings, internal controls, pending legal action, and other factors.

FCMAT often asks districts to have their boards and executive management team perform a self-assessment using FCMAT's Fiscal Health Risk Analysis checklist. The district performed this self-assessment prior to FCMAT's study, giving themselves a "No" response in eight of the 15 possible areas.

The FCMAT study team completed the following Fiscal Health Risk Analysis for the district based on interviews, document review and data analysis.

1. Deficit Spending • *Is this area acceptable?*.. *Yes*

- Is the district spending within their revenue budget in the current year? *Yes*
- Has the district controlled deficit spending over multiple years? *Yes*
  The district did deficit spend in the 2004-05 fiscal year.
- Is the deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions? *Yes*
- Are district revenue estimates based upon past history? *Yes*
  This is primarily due to rollover budgeting.
- Does the district automatically build in growth revenue estimates? *Yes*
  Growth is built in the budget where applicable. Community colleges have a growth cap and do not receive additional funding over the cap.

2. Fund Balance • *Is this area acceptable?*.. *Yes*

- Is the district's fund balance stable or consistently increasing? *Yes*
  The balance has been consistently increasing with the exception of the 2004-05 fiscal year.
- Is the fund balance increasing due to on-going revenues and/or expenditure reductions? *Yes*
  One of the reasons the fund balance is increasing is that each college raises funds that are then deposited into a specific sub fund budget in the general fund, also titled as Fund 17. As those funds accumulate, the ending fund balance increases. This is one of a number of practices that inflate the fund balance.

3. Enrollment • *Is this area acceptable?* .... *Yes*

- Has the district's enrollment been increasing or stable for multiple years? *Yes*
  The district was over cap in 2003-04, met cap in 2004-05, and declined in 2005-06. Currently, it appears that the cap will be met for 2006-07.
- Is the district's enrollment projection updated at least semiannually? *Yes*
- Are staffing adjustments consistent with the enrollment trends? *Yes*
  Staffing is based on previous year enrollment, so in fall 2006 the faculty obligation number (FON) was based on 2004-05 FTES. The state requires that the either the actual number or a cap be used, whichever is less. Funding for support staff is at the correct level; however, not all positions are filled.
- Does the district analyze enrollment and FTES data? *Yes*
- Does the district track historical data to establish future trends between P-1 and Annual for projection purposes? *Yes*
  The district uses their own K-12 trends and state trends in developing projections.
- Has the district avoided stabilization funding? *No*
  The district is currently on stabilization funding for the 2006-07 fiscal year. This will become a permanent reduction if the college does not make FTES base in 2006-07.

4. Unrestricted or Undesignated Balance • *Is this area acceptable?* .... *Yes*

- Is the district's unrestricted or free balance maintained at or above the recommended prudent minimum level (5% of the total unrestricted general fund expenditures)? *Yes*
  In addition to the 5% reserve, there are additional reserves for sub fund 17 and other contingencies.
- Is the district's unrestricted fund balance maintained throughout the year? *Yes*

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

- Can the district manage its cash flow without inter-fund borrowing? *Yes*
- Is the district repaying Tax and Revenue Anticipation Notes (TRANS) and\or borrowed funds within the statutory period? *N/A*
  The district has not had to issue TRAN in the last four years due to large cash balances.

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

- Has the district settled bargaining agreements within new revenue sources during the past three years? Yes
  Although not all units have settled at this time, reserves for settlements have been set aside in the budget.
- Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? *Yes*
- Did the district correctly identify the related costs? *Yes*
- Did the district address budget reductions necessary to sustain the total compensation increase? *No*
  To date, budget reductions have not been necessary to sustain compensation increases. There is a concern that the longer agreements are outstanding, and if enrollment does not increase, new revenues to the district will decline, potentially jeopardizing available dollars for settlements. Following is a list of the different unions and the year of their last settlement.
  - *2004-05 Academic salary (ACE)*
  - *2006-07 Administrative unit – settled through 2007-08*
  - *2004-05 Associated faculty (ACE)*
  - *2004-05 Children center instructors (ACE)*
  - *2006-07 Confidential – settled through 07-08*
  - *2004-05 Peace officers (Police Officers Association. –Teamsters Local 856)*
  - *2004-05 Evening /Weekend Supervisors (will be updated in 06-07)*
  - *2004-05 Office/technical and business services (SEIU-Local 715)*
  - *2004-05 Operations and support services (SEIU-Local 715),*
  - *2004-05 Supervisors (Professional and vocational supervisors' division – Teamsters Local 856)*

7. Unrestricted General Fund • *Is this area acceptable?* .... *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 statewide average for 2004-05 was 83.5%; the district's allocation for salaries that year was 85.18% of the general fund unrestricted budget. However, the calculation of the state Chancellor's office divides the total salaries and benefits paid not by unrestricted funding, but by the total expenditures of the district. As a result, the state Chancellor's calculation finds that the district is below the statewide average at 82.14%
- Is the district ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenditures? *Yes*
  All requests for new staff must clearly state the funding source prior to approval.

8. Internal Controls • *Is this area acceptable?* .... Yes

- Does the district have adequate controls to insure the integrity of the general ledger? *Yes*
  Based on interviews and reviewed documents, there were no concerns on internal controls.
- Does the district have adequate internal controls to safeguard the district's assets? *Yes*
  The district has adequate internal controls in general, but the 2003-04 and 2004-05 audit reports contain findings regarding the collection of cash from the parking meters. Two issues were included: 1) the same individual collects the cash from the parking meters as fills the meters with tickets, and 2) cash deposits to the bank are not timely. The district has indicated that the recommended changes have been partially implemented. This same audit finding was also in the 2000-01 audit report. The current processes that have been implemented should ensure that this practice will not be repeated.

9. Management Information Systems • *Is this area acceptable?* .... Yes

- Is the district data accurate and timely? *Yes*
  Current systems are not integrated; however, the district is and will continue implementing new systems and modules to strengthen this area. The various separate systems currently in use have not made data late or inaccurate, but have increased the amount of time needed to consolidate data.
- Are the county and state reports filed in a timely manner? *Yes*
- Are key fiscal reports readily available and understandable? *Yes*

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

To be effective, position control must be integrated with other financial modules such as budget development and/or payroll. However, position control must also be separate so that proper controls exist. The controls must ensure that only board-authorized positions are entered into the system and budget, that human resources is able to hire only employees authorized by the board, and that payroll pays only employees hired into authorized positions. The proper separation of duties is a key factor in creating strong internal controls that ensure a reliable position control system. At this time, position control is not integrated with any other systems, so weaknesses exist.

Position control continues to show open positions for the entire year, and the budget includes the annual cost, even though in many cases it is known that the position will remain open. The failure to decrease the budget for open positions causes large carryover balances at year end. Updating budgets so that unfilled open positions are not funded would greatly enhance the college's ability to monitor projected salary and benefit costs.

Position control is now considered a budget function; however, it should be shared between budget and human resources.

- Is position control integrated with payroll? *No*
  A manual validation between payroll and position control is done once a year.
- Does the district control unauthorized hiring? *Yes*
  The district uses forms containing the appropriate levels of approval, needs analysis and budget analysis before positions are entered into position control, budgeted for or filled.
- Does the district have controls over part time academic staff hiring? *No*
  Position control is used only for permanent, full time positions. Part time positions are tracked at the college level using a formula that calculates dollar amounts and the number of FTEs for part time staff. The district should validate data for part time positions in the same manner as it does for full time positions.

11. Budget Monitoring • *Is this area acceptable?* .... No

- Is there sufficient consideration to the budget, related to long-term bargaining agreements? *Yes*
  Reserves are set aside for collective bargaining agreements that are not yet settled, based on the district's last offer.
- Are budget revisions completed in a timely manner? *No*
  FCMAT found that the budget is not updated as the year proceeds. Although the district states that budget revisions are taken to the board if they cross major objects or affect the ending fund balance, the budget revisions do not appear to be adequate because there are numerous overdrawn accounts.
- Does the district openly discuss the impact of budget revisions at the board level? *No*
  Although budget revisions that cross major object codes are taken to board monthly, they are brought as an action item without much discussion or detail. In addition, FCMAT is concerned that the budget has numerous overdrawn accounts, and salary and benefit accounts that are budgeted even though many of the positions will not be filled. Budgets should be updated to reflect what is actually occurring.
- Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? *Yes*
- Has the district's long term debt decreased from the prior fiscal year? *No*
  The long term debt increased between 2003-04 and 2004-05 due to compensated absences and faculty obligation number liability.
- Has the district identified the repayment sources for the long term debt? *Yes*
  The district has established some contingency liabilities, but they need to be monitored closely to ensure that they are adequate.
- Does the district compile annualized revenue and expenditure projections throughout the year? *No*
  Although the district has a process to review projections throughout the year, the variance between budget and actuals at year end indicates that the budget is not updated adequately.

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

- Has the district completed an actuarial calculation to determine the unfunded liability? *Yes*
  The district's most current actuarial calculation is dated October 15, 2004. At that time, the amount of the actuarial liability for retirees age 65 and over, as of July 1, 2004, was $90.7 million. This calculation included the present value of all benefits expected to be paid by the district for retirees from age 65 until the end of their lifetime. The calculation also included retirees who are not yet 65 and current employees who have not yet retired. The benefits covered 442 retirees and 685 current employees. Future hires were not considered in the valuation. The district has begun the process for an updated actuarial study as required under GASB 45.
- Does the district have a plan for addressing the retiree benefits liabilities? *Yes*
  The district is funding this liability on a pay as you go basis from the general fund. A plan has not yet been developed to fund the entire future amount, however, the district has been setting aside up to $300,000 per year from the general fund to help fund the future obligation. The district's board policy 6.6.1 states that should health benefits costs exceed 4% of the budget, a minimum amount of $300,000 will be added to the retiree health benefit fund. The contribution will be adjusted based on an actuarial report conducted once every three years. The contingency is increased by $175,000 increase per year until they reach 3% of unrestricted expenditures.

13. Leadership/Stability • *Is this area acceptable?* .... ***No***

- Has the district experienced recent turnover in its management team (including the Chief Executive Officer, Chief Business Officer, and Board of Trustees)?
  In the past 4 years, there have been five different CBOs\Vice Chancellors. The lack of retention of CBOs is of great concern because it is difficult to further improvements or meet goals when change is occurring so often. The positions of chancellor, college presidents of both colleges and associate vice chancellor of human resources have also experienced turnover in the past five years.

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

- Has the district performed the proper legal analysis regarding potential lawsuits that may require the district to maintain increased reserve levels? *Yes*
  The district belongs to a joint powers authority (JPA) for property and liability insurance, which helps analyze and monitor this liability.
- Has the district set up contingent liabilities for anticipated settlements, legal fees, etc? *Yes*

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

- Has the district filed the annual audit report with the System Office on a timely basis? *Yes*
- Has the District taken appropriate actions to address material findings cited in their annual report? *Yes*
- Has the District met the requirements of the 50 percent law? *Yes*
  The district did not meet the requirement in 2004-05 but have made it up in 2005-06
- Have the Quarterly Financial Status Reports (CCFS-311Q), Annual Financial and Budget Reports (CCFS-311) and Apportionment Attendance Reports (CCFS-320) been submitted to the System Office on or before the stated deadlines? *Yes*

Risk Analysis

Total the number of areas that were not acceptable ("No" Responses).
Use the key below to determine the level of risk to the district's fiscal health.

0 – 3	4 – 6	7 – 10	11 – 15
Low	Moderate	High	Extremely High

Total "No" Responses: 3

Based on the above analysis, the West Valley-Mission Community College District has a low level of fiscal risk.

Recommendations

The district should:

1. Monitor its level of fiscal risk by completing the Fiscal Health Risk Analysis throughout the year.
2. Integrate position control with other financial modules such as budget development and/or payroll.
3. Ensure that position control includes only positions that are filled, or that the district plans to fill, during any fiscal year. The budget should also include only these positions.
4. Validate data on part time academic staff in the same manner as data on full time staff are validated.
5. Share position control responsibilities between the budget and human resources departments to ensure proper internal controls.
6. Bring to the board in a timely manner any budget revisions that cross major objects or affect the ending fund balance.
7. Prepare and analyze budget to actual variances throughout the year so that large year end variances do not continue; update the budget regularly throughout the year.
8. Continue to ensure compliance with GASB requirements and long term fiscal stability by setting aside additional dollars for the future cost of retiree benefits.
9. Address all findings in independent audits as soon as possible; implement new processes or controls in areas where findings occur.

Appendices

Appendix A

Executive Management Team Recommended Budget Priorities for 2005-06

Board Approved Budget Priorities for 2006-07

Appendix B

Multiyear Financial Projections

Appendix C

Budget Allocation Model, 1994-95

Key Areas for Budget Development, 2004-05

Appendix D

Draft Budget Allocation Model of the Budget Allocation Model Subcommittee, November 16, 2005

Introduction to Activity Based Costing

Appendix E

Study Agreement

Appendix A

Executive Management Team Recommended Budget Priorities for 2005-06

Board Approved Budget Prioirities for 2006-07

December 16, 2004 Governing
Board Budget Workshop

Item 2.2 - Financial Forecast

The action taken in FY 03/04 to cut expenditures and preserve the financial solvency of the West Valley-Mission Community College District were successful. However, as stated in the FY 04/05 Final Budget message, budget cuts have been restored.

> "The fiscal control.measures taken in FY 03/04 improved the financial position of the District. These actions also serve to provide a one-year window to develop and implement a plan for the permanent reduction of on-going costs to match anticipated future revenues. However, the actions taken in FY 03/04 have all been restored. The District has moved from generating an operating surplus in FY 03/04 to a budget plan that is at a $4.6 million deficit. The huge shift in the budget was caused by the following major factors:
>
> ► In order to meet college educational needs and the full-time faculty obligation number set by the State Chancellor's Office, the District has successfully completed 50 new faculty hires. This level of faculty hiring is unprecedented. Faculty, college administration, and the District's Human Resources department are commended for their effort. The fiscal impact of 47 full-time faculty replacing teaching hours of part-time faculty is about $2 million or $40,000 per position.
>
> ► Restoration of the 7.24% salary reduction for a cost of $1.2 million.
>
> ► Employee and retiree health costs continue to rise. Based on the information provided by the Benefit Consultant, the FY 04/05 budget anticipates an approximately 7% increase to the composite weighted average/FTE for total medical coverage for active and retiree employees.
>
> ► College and District operating allocations have been unrealistically cut in the past. About $2 million of the District's prior year operating surplus is the result of slashing these funds from the historic funding levels. The FY 04/05 Budget Plan will restore $500,000 for urgent operational needs. This is the source of funds for classroom supplies, hourly and student salaries, travel, and other needs.
>
> ► The recruitment of new employees to fill authorized and vacant positions. If all current open faculty and support positions were cancelled, an approximate $1.5 million reduction to on-going costs would occur. It is unreasonable to believe that minimally acceptable services can be provided with such a draconian cut to district staffing. Instead, the budget is based on $1 million being available at year-end due to salary saving from unfilled positions."

<u>Item 2.3 - Review of FY 04/05 Budget Priorities</u>

Following is a recap of the status of FY 04/05 budget priorities.

1. Develop and maintain a balanced budget.
   a. The FY 04/05 budget does maintain the minimum 5% reserve obligation of $4,074,719, which is 5% of the combined unrestricted and restricted general fund expenditure budget. In addition, $175,000 is budgeted to begin a 3% contingency reserve.
   b. Non-personnel expenditure budgets have been deeply cut in the past. A modest $500,000 improvement to the college and District Office operation allocations was made for FY 04/05. The on-going reduction of over $l.5M has caused elimination of non-essential expenditures throughout the District.
   c. No special allocations are available for capital projects. Land Corporation funds are committed to match State categorical funds allocated for these purposes.
   d. An exhaustive District-wide evaluation of non-faculty positions is being completed with the assistance of SEW. At the date of preparation for this budget workshop, the joint evaluation of open positions has not been finalized. The current year ending fund balance estimate will be based on the elimination of "de-funded" positions along with the authorization to recruit and fill all open positions. Salary savings from "float," the time that an authorized position is vacant and the job is not filled by other means, is expected to provide a salary saving of approximately $500,000 in the current fiscal year and an on-going budgetary savings of about $300,000.
   e. With the support of District Human Resources, the colleges have successfully recruited 47 full-time faculty for Fall 2004. 20 full-time faculty recruitments will be authorized for Fall 2005, which includes 10 additional full-time faculty FTE. This level of hiring will assure that the District meets its full-time faculty obligation. When the District has achieved 75% of all teaching hours performed by full-time faculty, future hiring will be limited to replacement of full-time faculty who retire or resign.
   f. The Budget Allocation Model study group is being revitalized and will be charged to complete its review of desired features of a resource allocation model and examination of other successfully implemented models. A changed budget may be used in developing the FY 06/07 budget. It is not possible to substantially complete this work in time for FY 05/06.
   g. Actions' have been implemented to suppress expenditures to the extent possible in the current fiscal year in keeping with the Board approved Budget Reduction Principles. The goal of a balanced budget and avoidance of state intervention in the instructional and financial affairs of the District is not possible within the confines of the budget reductions principles and past

EXECUTIVE MANAGEMENT TEAM'S RECOMMENDATION FOR THE GOVERNING BOARD

BUDGET PRIORITIES FOR FY 05/06

Fiscal Year 2005/2006 is expected to be another challenging year. In each area the allocation of resources will be made recognizing the fiscal limitations that exist for FY 05/06.

1. Develop and maintain a balanced budget.

   A. Maintain a minimum unrestricted general fund reserve of five percent (5%) and fund an additional $300,000 toward a contingency reserve of three percent (3%).
   B. Negotiate an employee compensation package that balances employer costs to funds available for salaries and benefits.
   C. Forego use of unrestricted general funds for capital projects.
   D. Recruit for support positions following a case-by-case basis for need.
   E. Develop staffing standards for custodial and other direct workload measure position, if any.
   F. Achieve the 75% full-time/part-time faculty threshold through a carefully selected variety of methods.
   G. Pursue the development of a budget allocation model to assist in developing sound fiscal practices that will provide objectivity, equity, and stability to the operations of the District. The District will implement a model that includes a formula for establishing the level of FTE of classified, administrators, counselors, and librarians needed to support the District's operations. The short-term strategy for FY 04/05 is to change the components of the allocation model that relate to the funding of fulltime and part-time faculty to make them consistent with priority IE. The long-term strategy is to have a new budget allocation model in place by FY 05/06.
   H. Take action during the course of the year to maintain a balanced budget. Evaluate expenditure allocations and reallocate budgets to ensure budgets accurately reflect actual operations. Implement a plan to reduce expenditures consistent with the criteria outlined in the Budget Reduction Principles document attached.
   1. Utilize prior years' actual expenditures (not prior years' budgets) as the foundation for the development of the District's operating budgets. The goal is to create realistic budgets that include the full cost of programs and services.
   J. Develop an integrated plan for enrollment management. The short-term plan will include a process for achieving base enrollment plus growth and limiting unfunded FTES. The long-term goal is to develop a comprehensive enrollment management plan.

II. Maintain a safe physical and information technology environment that supports high levels of personal and institutional achievement.

Budget Reduction Principles

1. The District will maintain Board adopted budget priorities.

2. While the imposition of budget reductions may affect the District and Colleges' ability to pursue master plan implementation plans, the plans should continue to be followed as much as possible and considered in the decision-making process. Some of the activities included in the plans, however, may need to be deferred to future years, and others updated or modified to fit into a more restrictive budget environment.

3. The District should make educational decisions with a long-term view. The Colleges should maintain a program mix that affirms the primary mission of degree and certificate completion, transfer, basic skills, and career and workforce development. The District should also continue to provide instructional and student access, retention, persistence, and success.

4. Continue to comply with all federal, state, and local mandatory-reporting requirements.

5. Link requirements for reaffirmation of accreditation to budget development principles.

6. Decisions about potential budget reductions should take place as much as possible at the lowest level possible, using existing shared governance processes when appropriate. Districtwide issues will be evaluated by the Executive Management Team and/or designees and reviewed with DBAC.

7. Information about budget reduction issues, planning, and decision-making should be widely disseminated. The Colleges and District should work to maximize consistent communications to facilitate maximum input into the process, provide updates on progress, and to reduce, wherever possible, unfounded anxiety and confusion. This communication effort should include open forums held for both campuses, as well as board meeting discussions, consultation with shared governance groups, and regular email and print update reports.

8. The potential impact of reductions should be carefully considered in the decision-making process, with efforts made to not take actions that will likely lead to a "downward spiral" in terms of revenue generation. Meeting enrollment targets should be of primary consideration, although it is recognized that the statewide apportionment system often makes accurate planning difficult.

9. Budget reduction measures should strive to avoid "across the board" methods, and instead, focus on more specific and strategic targets, although various units could be apportioned "shares" of cost cutting targets, when appropriate. Decisions should be made with a long-term view.

Item 2.4 - Review of Budget Reduction Options

Attached is a list of 107 items for long-term and short-term budget reduction options for FY 04/05 and a response to each item. The listing of options results from district-wide budget forums and other opportunities for constituency input in helping to prepare a balanced budget plan. In many cases, the options listed have been implemented. Many other major cost issues are subject to collective bargaining or will require additional programmatic review. This material is provided for Governing Board information.

BOARD OF TRUSTEES' BUDGET PRIORITIES FOR 2006-07

I. Develop and maintain a balanced budget

- Maintain a minimum unrestricted general fund reserve of five (5) percent and fund an additional $300,000 toward a contingency reserve of three (3) percent.
- Utilize prior years' actual expenditures (not prior years' budgets) as the foundation for development of the District's operating budgets. The goal is to create realistic budgets that include the full cost of programs and services.
- Revise and update the plan to fund Retiree Health Benefit Liabilities.
- Support for competitive compensation and benefits package for all District employees.

II. Develop an integrated comprehensive enrollment enhancement and management system by using the following strategies:

- Outreach, Recruitment, Retention, and Marketing Strategies
- Program Review
- Public Safety Agency Training
- Alignment of Services, Facilities, and Staffing with Student Needs

III. Increase non-apportionment revenue

- International Student Initiatives
- Reimbursable Certificate of Participation (COP)
- Alumni Revenue

IV. Manage Measure H funds and Capital Project funds efficiently and effectively

V. Build a District Research and Planning Capacity

- Create a climate of evidence and evaluation

Appendix B

Multiyear Financial Projections

West Valley-Mission Community College District - Multi-year projection
Meeting FTES Base in 2008-09

General Fund Object	UNRESTRICTED Only Object Description	2003-04 Actuals	2004-05 Actuals	2005-06 Projected Actuals	2006-07 Tentative Budget	2007-08 Budget Projection	2008-09 Budget Projection
FTES		**18,213**	**17,653**	**16,736**	**17,056**	**17,366**	**17,653**
Beginning Balance		**(10,372,815)**	**(13,560,291)**	**(12,450,317)**	**(15,245,349)**	**(16,592,634)**	**(13,134,784)**
Federal Revenue							
48190	Other Federal Rev						
	Total Federal Revenue	**0**	**0**	**0**	**0**	**0**	**0**
State Revenue							
48610	General Apportionment	(9,303,289)	(8,530,426)	(12,569,704)	(15,865,383)	(16,153,743)	(16,420,709)
	Budget Stability				(1,186,000)	(1,186,000)	(1,186,000)
48611	Other Gen. Apportionment	(3,527,327)	(3,020,480)	(506,847)			
48612	Prior-Year State Revenue			(2,002,577)			
48613	Equalization		(1,606,607)	(620,679)			
48614	State Revenue - Basic		(158,657)				
48651	State Grants				(35,000)		
48670	HOPTR	(539,391)	(515,710)	(510,346)	(299,969)	(500,000)	(500,000)
48680	Lottery	(2,372,342)	(2,555,710)	(2,546,277)	(2,137,500)	(2,061,840)	(2,110,374)
48681	Mandated Cost Reimbursement			(155,156)	(500,000)		
48683	PT - Faculty Office Hours	(424,539)	(447,959)	(331,529)	(350,000)	(300,000)	(300,000)
48684	PT - Facutly Parity	(1,455,900)	(785,215)	(1,365,880)	(785,215)	(780,000)	(780,000)
48690	Other State Revenues						
	Total State Revenue	**(17,622,789)**	**(17,620,764)**	**(20,608,995)**	**(21,159,067)**	**(20,981,583)**	**(21,297,083)**
Local Revenue							
48810	Local - County		(36,054)				
48811	Secured Taxes	(42,506,370)	(43,205,161)	(50,143,545)	(51,955,382)	(54,553,151)	(57,280,809)
48812	Unsecured Taxes	(5,802,261)	(7,619,319)	(5,057,764)	(6,030,957)	(6,151,576)	(6,274,608)
48815	Interest Income	(406)	(46)	(255,835)	(300,000)	(300,000)	(300,000)
48820	Gifts/Endowment - Foundation			(381,977)	(300,000)	(300,000)	(300,000)
48821	Gifts/Endowment - Pri	(5,000)	(65,000)	(15,000)	(15,000)	(5,000)	(5,000)
48822	Gifts/Endowment - Other	(14,250)	(77,607)	(21,375)	(27,800)	(10,000)	(10,000)
48874	Enrollment	(4,474,921)	(5,876,874)	(5,656,255)	(5,357,700)	(5,200,000)	(5,200,000)
48877	Material/Microcomputer	(110,302)	(102,814)	(106,120)	(93,608)	(90,000)	(90,000)
48880	Nonresident Tuition	(1,161,029)	(1,143,855)	(1,134,955)	(1,216,000)	(1,100,000)	(1,100,000)
48885	Processing Fees/Fine	(104,620)	(100,701)	(119,943)	(5,500)	(100,000)	(100,000)
48886	Lab Fees	(210,476)	(211,269)	(235,799)	(191,700)	(190,000)	(190,000)
48890	Local Revenue - Other		(840)	(3,949)	(177,400)		
48891	Café/Vending/Publications	(18,573)	(20,197)	(22,701)	(18,845)	(20,000)	(20,000)
48892	Sales Returns/Earning	(137,707)	(150,457)	(141,164)	(123,500)	(120,000)	(120,000)
48893	Facility Rental	(472,608)	(512,774)	(162,119)	(168,651)	(160,000)	(160,000)
48896	Reimb.. Ace Release Time	(83,617)	(39,320)	(62,176)	(60,000)	(60,000)	(60,000)
48899	Misc. Revenue	(803,220)	(584,427)	(730,024)	0		
	Total Local Revenue	**(55,905,361)**	**(59,746,713)**	**(64,250,701)**	**(66,042,043)**	**(68,359,727)**	**(71,210,416)**
48900	**Transfer In**	(192,045)	(90,324)	(143,330)	(130,100)	(90,000)	(90,000)
	Total Revenue	**(73,720,195)**	**(77,457,801)**	**(85,003,026)**	**(87,331,210)**	**(89,431,310)**	**(92,597,499)**
Total Revenue and Beginning Balance		**(84,093,010)**	**(91,018,092)**	**(97,453,342)**	**(102,576,559)**	**(106,023,944)**	**(105,732,283)**
Expenditures by Object							
Academic Salaries							
1100	FT Instructional Salaries	16,016,733	17,791,689	18,975,546	20,609,097	21,252,611	23,082,189
1200	FT Non-Instructional Salaries	6,562,620	7,119,796	7,697,267	7,405,744	8,236,076	7,924,146
1300	PT Instructional Salaries	9,382,006	10,221,422	11,641,781	10,075,560	13,038,795	11,284,627
1400	PT Non-Instructional Salaries	294,120	399,727	523,273	250,575	559,902	268,115
	Total Academic Salaries	**32,255,478**	**35,532,633**	**38,837,867**	**38,340,976**	**43,087,384**	**42,559,077**
Classified Salaries							
2100	FT Classified Salaries	11,316,438	11,353,249	11,846,365	13,439,254	13,149,465	14,917,572
2200	FT Instructional Aide Salaries	709,655	823,426	788,128	831,459	882,704	931,234
2300	Hourly Classified Salaries	748,731	891,184	912,359	790,217	994,472	861,337

West Valley-Mission Community College District - Multi-year projection
Meeting FTES Base in 2008-09

General Fund Object	UNRESTRICTED Only Object Description	2003-04 Actuals	2004-05 Actuals	2005-06 Projected Actuals	2006-07 Tentative Budget	2007-08 Budget Projection	2008-09 Budget Projection
2400	Hourly Instr. Aid Salaries	242,069	319,334	309,958	307,545	347,153	344,450
2500	Retroactive Salary Payment	0	531,412				
	Total Classified Salaries	**13,016,893**	**13,918,605**	**13,856,810**	**15,368,475**	**15,373,793**	**17,054,593**
Benefits							
3100	STRS	2,394,352	2,548,758	2,757,729	2,729,877	3,080,748	3,042,974
3200	PERS	1,305,542	1,362,705	1,324,667	1,506,111	1,506,632	1,671,350
3300	OASDI/Medicare	2,176,851	1,671,324	1,728,346	1,933,540	2,163,064	2,205,706
3400	Health and Welfare	9,616,167	10,670,210	11,467,237	13,433,004	14,359,881	15,350,713
3500	Unemployment Insurance	157,682	311,968	229,257	253,186	251,383	256,339
3600	Workers Comp Insurance	780,341	878,183	651,863	682,110	742,457	757,094
	Total Benefits	**16,430,934**	**17,443,148**	**18,159,099**	**20,537,828**	**22,104,164**	**23,284,175**
Supplies							
4100	Instructional Supplies	538,406	546,401	642,408	586,604	603,616	619,913
4200	Non-Instructional Supplies	768,463	774,082	832,977	1,035,584	1,065,616	1,094,388
	Total Supplies	**1,306,869**	**1,320,482**	**1,475,385**	**1,622,188**	**1,669,231**	**1,714,301**
Contracted Services							
5100	Contract Services	1,084,355	1,867,441	2,259,394	2,299,462	2,366,146	2,430,032
5200	Travel	148,790	203,771	283,873	330,794	340,387	349,577
5300	Printing	70,575	103,710	142,092	150,865	155,240	159,432
5400	Advertising	174,648	369,819	279,297	304,536	313,368	321,828
5500	Equip. Repair & Maintenance	1,440,874	1,528,634	1,194,906	1,348,688	1,387,800	1,425,271
5600	Facilities Leases	63,957	53,529	55,627	53,500	57,295	55,105
5800	Utilities	2,041,165	2,109,909	2,445,202	2,359,212	2,477,173	2,601,031
5900	Other Operating Expenses	1,152,161	2,064,477	1,578,134	1,583,402	1,662,572	1,745,701
	Total Contracted Services	**6,176,526**	**8,301,290**	**8,238,524**	**8,430,459**	**8,759,981**	**9,087,977**
Capital Outlay							
6100	Ground Site Improvement	40,322	60,357	201,829	110,711	140,000	140,000
6200	Buildings	4,151	1,998				
6300	Library Books	20,518	27,010	18,841	23,036	23,704	24,344
6400	Equipment	299,796	478,246	443,155	339,847	400,000	400,000
	Total Capital Outlay	**364,787**	**567,612**	**663,825**	**473,594**	**563,704**	**564,344**
Student Aid							
7300	Transfers Out	981,232	1,051,598	1,136,021	1,204,963	1,325,459	1,458,005
7500	Grants		12,549				
7600	Other Student Aid	0	17,352	15,463	5,442	5,442	5,442
	Total Student Aid	**981,232**	**1,081,499**	**1,151,484**	**1,210,405**	**1,330,901**	**1,463,447**
Total Expenditures by Object		**70,532,720**	**78,165,269**	**82,207,993**	**85,983,925**	**92,889,159**	**95,727,915**
0	Audit Adjustments	0	402,506	(175,000)	0	0	0
Total Ending Balance		**(13,560,291)**	**(12,450,317)**	**(15,245,349)**	**(16,592,634)**	**(13,134,784)**	**(10,004,368)**
	5% Reserve	3,526,636	3,908,263	4,053,599	4,238,948	4,578,185	4,713,495
	Sub Fund 17 - carryover	650,381	868,785	1,282,598	1,282,598	1,258,937	1,368,927
	Contingency Reserve		300,000	475,000	650,000	825,000	1,000,000
	Collective Bargaining Agreements			4,700,000	4,700,000		
	PT Faculty Parity			785,215	785,215	785,215	785,215
	Faculty Travel & Conference		49,231	96,890	96,890	120,000	120,000
	Unallocated/Unappropriated	(9,383,274)	(7,324,037)	(3,852,047)	(4,838,983)	(5,567,447)	(2,016,731)

West Valley-Mission Community College District - Multi-year projection
Meeting FTES Base in 2006-07

General Fund Object	UNRESTRICTED Only Object Description	2003-04 Actuals	2004-05 Actuals	2005-06 Projected Actuals	2006-07 Tentative Budget	2007-08 Budget Projection	2008-09 Budget Projection
FTES		**18,213**	**17,653**	**16,736**	**17,653**	**17,903**	**18,153**
Beginning Balance		**(10,372,815)**	**(13,560,291)**	**(12,450,317)**	**(15,245,349)**	**(18,964,707)**	**(15,011,746)**
Federal Revenue							
48190	Other Federal						
	Total Federal Revenue	**0**	**0**	**0**	**0**	**0**	**0**
State Revenue							
48610	General Apportionment	(9,303,289)	(8,530,426)	(12,569,704)	(15,865,383)	(16,611,056)	(17,076,166)
	Budget Stability				(3,558,073)		
48611	Other Gen. Apportionment	(3,527,327)	(3,020,480)	(506,847)			
48612	Prior-Year State Revenue			(2,002,577)			
48613	Equalization		(1,606,607)	(620,679)			
48614	State Revenue - Basic		(158,657)				
48651	State Grants				(35,000)		
48670	HOPTR	(539,391)	(515,710)	(510,346)	(299,969)	(500,000)	(500,000)
48680	Lottery	(2,372,342)	(2,555,710)	(2,546,277)	(2,137,500)	(2,061,840)	(2,110,374)
48681	Mandated Cost Reimbursement			(155,156)	(500,000)		
48683	PT - Faculty Office Hours	(424,539)	(447,959)	(331,529)	(350,000)	(300,000)	(300,000)
48684	PT - Facutly Parity	(1,455,900)	(785,215)	(1,365,880)	(785,215)	(780,000)	(780,000)
48690	Other State Revenues						
	Total State Revenue	**(17,622,789)**	**(17,620,764)**	**(20,608,995)**	**(23,531,140)**	**(20,252,896)**	**(20,766,540)**
Local Revenue							
48810	Local - County		(36,054)				
48811	Secured Taxes	(42,506,370)	(43,205,161)	(50,143,545)	(51,955,382)	(54,553,151)	(57,280,809)
48812	Unsecured Taxes	(5,802,261)	(7,619,319)	(5,057,764)	(6,030,957)	(6,151,576)	(6,274,608)
48815	Interest Income	(406)	(46)	(255,835)	(300,000)	(300,000)	(300,000)
48820	Gifts/Endowment - Foundation			(381,977)	(300,000)	(300,000)	(300,000)
48821	Gifts/Endowment - Pri	(5,000)	(65,000)	(15,000)	(15,000)	(5,000)	(5,000)
48822	Gifts/Endowment - Other	(14,250)	(77,607)	(21,375)	(27,800)	(10,000)	(10,000)
48874	Enrollment	(4,474,921)	(5,876,874)	(5,656,255)	(5,357,700)	(5,433,575)	(5,509,450)
48877	Material/Microcomputer	(110,302)	(102,814)	(106,120)	(93,608)	(90,000)	(90,000)
48880	Nonresident Tuition	(1,161,029)	(1,143,855)	(1,134,955)	(1,216,000)	(1,100,000)	(1,100,000)
48885	Processing Fees/Fine	(104,620)	(100,701)	(119,943)	(5,500)	(100,000)	(100,000)
48886	Lab Fees	(210,476)	(211,269)	(235,799)	(191,700)	(190,000)	(190,000)
48890	Local Revenue - Other		(840)	(3,949)	(177,400)		
48891	Café/Vending/Publications	(18,573)	(20,197)	(22,701)	(18,845)	(20,000)	(20,000)
48892	Sales Returns/Earning	(137,707)	(150,457)	(141,164)	(123,500)	(120,000)	(120,000)
48893	Facility Rental	(472,608)	(512,774)	(162,119)	(168,651)	(160,000)	(160,000)
48896	Reimb.. Ace Release Time	(83,617)	(39,320)	(62,176)	(60,000)	(60,000)	(60,000)
48899	Misc. Revenue	(803,220)	(584,427)	(730,024)	0		
	Total Local Revenue	**(55,905,361)**	**(59,746,713)**	**(64,250,701)**	**(66,042,043)**	**(68,593,302)**	**(71,519,867)**
48900	**Transfer In**	(192,045)	(90,324)	(143,330)	(130,100)	(90,000)	(90,000)
	Total Revenue	**(73,720,195)**	**(77,457,801)**	**(85,003,026)**	**(89,703,283)**	**(88,936,198)**	**(92,376,406)**
Total Revenue and Beginning Balance		**(84,093,010)**	**(91,018,092)**	**(97,453,342)**	**(104,948,632)**	**(107,900,905)**	**(107,388,152)**
Expenditures by Object							
Academic Salaries							
1100	FT Instructional Salaries	16,016,733	17,791,689	18,975,546	20,609,097	21,252,611	23,082,189
1200	FT Non-Instructional Salaries	6,562,620	7,119,796	7,697,267	7,405,744	8,236,076	7,924,146
1300	PT Instructional Salaries	9,382,006	10,221,422	11,641,781	10,075,560	13,038,795	11,284,627
1400	PT Non-Instructional Salaries	294,120	399,727	523,273	250,575	559,902	268,115
	Total Academic Salaries	**32,255,478**	**35,532,633**	**38,837,867**	**38,340,976**	**43,087,384**	**42,559,077**
Classified Salaries							

West Valley-Mission Community College District - Multi-year projection
Meeting FTES Base in 2006-07

General Fund Object	UNRESTRICTED Only Object Description	2003-04 Actuals	2004-05 Actuals	2005-06 Projected Actuals	2006-07 Tentative Budget	2007-08 Budget Projection	2008-09 Budget Projection
2100	FT Classified Salaries	11,316,438	11,353,249	11,846,365	13,439,254	13,149,465	14,917,572
2200	FT Instructional Aide Salaries	709,655	823,426	788,128	831,459	882,704	931,234
2300	Hourly Classified Salaries	748,731	891,184	912,359	790,217	994,472	861,337
2400	Hourly Instr. Aid Salaries	242,069	319,334	309,958	307,545	347,153	344,450
2500	Retroactive Salary Payment	0	531,412				
	Total Classified Salaries	**13,016,893**	**13,918,605**	**13,856,810**	**15,368,475**	**15,373,793**	**17,054,593**
Benefits							
3100	STRS	2,394,352	2,548,758	2,757,729	2,729,877	3,080,748	3,042,974
3200	PERS	1,305,542	1,362,705	1,324,667	1,506,111	1,506,632	1,671,350
3300	OASDI/Medicare	2,176,851	1,671,324	1,728,346	1,933,540	2,163,064	2,205,706
3400	Health and Welfare	9,616,167	10,670,210	11,467,237	13,433,004	14,359,881	15,350,713
3500	Unemployment Insurance	157,682	311,968	229,257	253,186	251,383	256,339
3600	Workers Comp Insurance	780,341	878,183	651,863	682,110	742,457	757,094
	Total Benefits	**16,430,934**	**17,443,148**	**18,159,099**	**20,537,828**	**22,104,164**	**23,284,175**
Supplies							
4100	Instructional Supplies	538,406	546,401	642,408	586,604	603,616	619,913
4200	Non-Instructional Supplies	768,463	774,082	832,977	1,035,584	1,065,616	1,094,388
	Total Supplies	**1,306,869**	**1,320,482**	**1,475,385**	**1,622,188**	**1,669,231**	**1,714,301**
Contracted Services							
5100	Contract Services	1,084,355	1,867,441	2,259,394	2,299,462	2,366,146	2,430,032
5200	Travel	148,790	203,771	283,873	330,794	340,387	349,577
5300	Printing	70,575	103,710	142,092	150,865	155,240	159,432
5400	Advertising	174,648	369,819	279,297	304,536	313,368	321,828
5500	Equip. Repair & Maintenance	1,440,874	1,528,634	1,194,906	1,348,688	1,387,800	1,425,271
5600	Facilities Leases	63,957	53,529	55,627	53,500	57,295	55,105
5800	Utilities	2,041,165	2,109,909	2,445,202	2,359,212	2,477,173	2,601,031
5900	Other Operating Expenses	1,152,161	2,064,477	1,578,134	1,583,402	1,662,572	1,745,701
	Total Contracted Services	**6,176,526**	**8,301,290**	**8,238,524**	**8,430,459**	**8,759,981**	**9,087,977**
Capital Outlay							
6100	Ground Site Improvement	40,322	60,357	201,829	110,711	140,000	140,000
6200	Buildings	4,151	1,998				
6300	Library Books	20,518	27,010	18,841	23,036	23,704	24,344
6400	Equipment	299,796	478,246	443,155	339,847	400,000	400,000
	Total Capital Outlay	**364,787**	**567,612**	**663,825**	**473,594**	**563,704**	**564,344**
Student Aid							
7300	Transfers Out	981,232	1,051,598	1,136,021	1,204,963	1,325,459	1,458,005
7500	Grants		12,549				
7600	Other Student Aid	0	17,352	15,463	5,442	5,442	5,442
	Total Student Aid	**981,232**	**1,081,499**	**1,151,484**	**1,210,405**	**1,330,901**	**1,463,447**
Total Expenditures by Object		**70,532,720**	**78,165,269**	**82,207,993**	**85,983,925**	**92,889,159**	**95,727,915**
0	Audit Adjustments	0	402,506	(175,000)	0	0	0
Total Ending Balance		**(13,560,291)**	**(12,450,317)**	**(15,245,349)**	**(18,964,707)**	**(15,011,746)**	**(11,660,237)**
	5% Reserve	3,526,636	3,908,263	4,053,599	4,238,948	4,578,185	4,713,495
	Sub Fund 17 - carryover	650,381	868,785	1,282,598	1,282,598	1,258,937	1,368,927
	Contingency Reserve		300,000	475,000	650,000	825,000	1,000,000
	Collective Bargaining Agreements			4,700,000	4,700,000		
	PT Faculty Parity			785,215	785,215	785,215	785,215
	Faculty Travel & Conference		49,231	96,890	96,890	120,000	120,000
	Unallocated/Unappropriated	(9,383,274)	(7,324,037)	(3,852,047)	(7,211,056)	(7,444,409)	(3,672,599)

Appendix C

Budget Allocation Model, 1994-95

Key Areas for Budget Development, 2004-05

BUDGET ALLOCATION
MODEL

1.0 INTRODUCTION

At the present time the West Valley Mission Community College District (hereafter referred to as the District) does not have a budget allocation model that is understood and supported by all parties in the District. To this end, the Board of Trustees directed the District Budget Advisory Committee (DBAC) to develop such a model by the end of 1993.

A District allocation model must meet the following criteria:

1. It must be simple enough that all parties in the District can understand the model.
2. It must be perceived as fair by all parties in the District.
3. It must be responsive to the changing revenue picture from the state.
4. It must be responsive to changing community needs and the long-range goals of the District.
5. It must be fiscally prudent.

2.0 THE BASIC MODEL

The basic model is shown in Figure 1.

<u>2.1 Step 1 - Income</u>

The first step in the model indicates the revenue received by the District from federal, state and local sources that is placed in the Unrestricted General Fund. This includes apportionment, lottery, enrollment fees, and non-resident tuition. This figure may change on an annual basis or even within a given year. We propose that when the actual revenue received during the year does not equal the projected revenue due to factors other than enrollment (eg. a deficit is applied to apportionment, mandated costs are different than projected), that DBAC immediately review the feasibility of mid-year budget reductions based on the WSCH split. This action may be necessary given our low level of reserves.

If revenue is received in excess of the projection, it should be earmarked for longrange District goals determined through the shared governance process (eg equipment replacement, support of retiree benefits, deferred maintenance, etc.).

2.2 Step 2 - Fixed Costs

The second step indicates that the first items covered by this income are fixed costs. Fixed costs are defined as items that must be paid no matter how much income the District receives. The District's fixed cost items are listed in Table 2-1.

Table 2.1

FIXED COSTS and DESIGNATED RESERVES
(First Expenses to be deducted before resources are divided between the campuses)

Academic Sabbatical Leaves
Faculty Emeriti
Academic PG&D
Academic Column Advancements
Academic Golden Handshakes
Contract Required Faculty Travel & Conference
Contract Required Safety Items
Other Retirement Incentives
Classified Growth Incentives
Environmental regulatory requirements
Financial Aid Match
Mission College Portable
Sabbatical leave Carryover
TSAs
Legal Expenses
Audit Expenses
Benefits Consultant
Property/Liability Insurance
COP Debt Obligation and Related Fees
Board Elections
Retiree Medical Benefits-current year
Accrued Vacation/Sickleave Liability
Utilities
Telephone
(including both colleges' telephone systems capital lease payments)
Honeywell Maintenance Contract
College Library Systems (capital lease payments)
HP Upgrade (capital lease payments)
Required Advertising (personnel/bidding)
Required Police Costs (fingerprinting, booking fees, radio maintenance, dispatching service)

3% Reserve (District Contingency)
Apportionment Deficit
Reserve for Working Capital (stores, prepaids) Reserve
for current portion of Retiree Benefit Liability
Set Aside for District Wide Negotiated Salary/Reclassification Increases
Set Aside for Deferred Maintenance Contribution (if no other funding source is available such as Redevelopment)
Designations for prior year commitments (carryovers, sabbatical leaves, faculty travel & conference, non-resident tuition sharing)

Salary Savings *This step was considered earlier in the budget process, but was omitted from the* 94-95 *Final Budget.*

Salary savings is calculated as a separate step before the discretionary allocation. In order to estimate conservatively, we would assume: that each unfilled faculty position would remain vacant with a part-time replacement for 1.5 *semesters; (estimate at $500,000 for the preliminary* 1994/95 *budget) that there will be no salary savings from turnover in the classified positions funded in* 1994/95; *that there will be about $100,000 salaries and mandatory benefits saved from administrators and classified salaries. This is significantly less then the over* $1 *million budgeted for salary savings in the previous two years. This is due to many retirements of academic staff and probable deletions of classified positions.*

If salary savings come in less than calculated, the difference will come from the 3% reserve. If salary savings amount to more than what we estimate, then the excess amount will be placed in a designated reserve for capital planning. A subcommittee of DBAC will establish priorities for capital spending.

2.3 Step 3 - Central Services

Central Services consists of a number of departments that provide services to the Board of Trustees, the colleges and to other departments within Central Services. These departments are as follows:

Board of Trustees
Business Services
Chancellor and Chancellor's Contingency
Facilities
Grants & Development
Human Resources & Labor Relations
MIS & Planning
Police

Such services must be paid for independent of the level of income the District receives. However, the types of services and the amount of each service provided should be reviewed on an annual basis by a committee under the auspices of DBAC. The budget for Central Services should be based on the level of service desired by the internal consumers and/ or required by the external regulators (local, state and federal agencies). *Mandates should be reviewed annually for desirability of compliance.* A good model for Central Services would be the Sunnyvale method of performance based budgeting for city services.

The costs allocated in Central Services include salaries and benefits, net of salary savings, supplies, operating expenses, equipment, and contingencies.

Salary savings experienced in Central Services would fall to the District's reserve.

Central Services offices would be allowed to carryover the unspent amount of the Fourth Quarter classified hourly, supplies, operating expense and equipment allocations up to 10% of the total end-of-year budgets for these categories.

<u>FTES and WSCH/FTE Goals</u> This step was also considered earlier in the budget process, but was omitted in the 1994-95 *Final Budget.*

We propose that the District's total FTES goal for each fiscal year be set equal to the California Community College Chancellor's Office projections of the funded FTES workload measures (ie cap) for this District. This District goal would then be split between the colleges based on the actual enrollment reported and earned during the previous year as described in the scenarios below. 1993-94 *will be considered the base year for attainment of FTES goals. We will project* 1993-94 *FTES based on the P-1 320 and adjust this estimate in early March after we have the Spring First Census. If one college* is *not projected to meet this year's goals, then 50% of their decline moves to the other college next year, and* so *on as described in scenarios* 3.2-3.4. *If the Districts cap is reduced by the Chancellor's Office, then the reduced FTES goal will be split in the same proportion it would have if it had not been reduced.*

We propose that the WSCH/FTE goal for 1994/95 *be determined by the Chancellor. To be reviewed by a subcommittee of the subcommittee of the committee, information to be provided at the* 1/18/94 *DBAC meeting.*

<u>2.4 Steps 4 - Instructional Costs</u>

The next step is to fund the full-time and part-time teaching FTE at each college, and related benefits. The total number of FTE each college receives is based on the Teaching FTE Allocation Formula developed in July 1993 (see Appendix A of the 1993-94 Final Budget document for details of this formula).

If the instructional salaries category is *overspent, the Colleges would have to fund shortfalls from discretionary allocations.*

Salary savings experienced in the instructional categories would fall to the District's reserve.

At the present time, the full-time/part-time ratios are different at the two colleges. The allocated ratios are 64% at WVC, 36% at MC, based on each College's respective share of full-time teaching faculty. These ratios will be reviewed in Fall 1994 to determine what method would be best to bring them into balance. These ratios must be brought into balance over the next two years either by shifting unfilled positions from one college to the other college and hiring teachers at the college with the lower ratio first or by transferring full-time employees from one College to the other. By fiscal year 1996-1997, the ratios will the same. (The foregoing ratios assume 6 new hires at West Valley and do not consider any possible changes in full-time staffing due to bumping.)

The following is a comment in earlier versions, but not kept in the Final Budget:
Another way to bring the full-time/part-time ratios into balance is by shifting WSCH/FTE to change the allocated part-time FTE. We propose that, after retirements, resignations and program changes have occured for 1993-94, the DBAC subcommittee review the actual ratios of full-time to part-time ratios. If the differences can be validated and explained by curriculum or scheduling differences, or by some other restricting factors, then it may be in the District's best interest to maintain different ratios at each college. Otherwise, we can begin a three-year phase-in towards equal full-time to parttime ratios at the two colleges.

2.5 Steps 5 - College Discretionary Budgets

The funding left at this point is divided between the colleges on the basis of the colleges' FTES (full-time equivalent students) goals. Thus, if one college is tasked to produce 55% of the District's FTES, that college would receive 55% of the money available for discretionary goods and services. The other college would receive the remaining 45% of the available funding.

The discretionary budget allocations will be phased in over three years. For the 1994-95 budget year, Mission has agreed to increase its budget reduction target from $1.6 million to $2.0 million. For the 1995-96 budget year, Mission will reduce its budget sufficiently to address 50% of the difference between its allocation level specified by the model and its actual 1994-95 discretionary budget level. Mission's discretionary budget for 1996-97 will be based on the model without any allowances.

We propose that the District's total FTES goal for 1994-95 (the base year) be set equal to the California Community College Chancellor's Office projections of the funded FTES workload measures for 1994-95 (i.e. cap) for this District. This District goal would then be split between the Colleges based on the budgeted enrollment earned during 1993-94. Enrollment growth for 1994-95, if it occurs, will be allocated 95% to Mission and 5% to West Valley.

We propose that the WSCH/FTE goal for 1994-95 (base year) be determined by the Chancellor, but that the difference between the goals approach the historical marginal difference of 525 at West Valley College and 515 at Mission College (or 1.9%). The Chancellor has determined that the regular WSCH/FTE goal for 1994-95 will be 562 at West Valley College and 551 at Mission College, which maintains the historical difference of 1.9%.

Each college is free to spend its discretionary budget as it best sees fit in order to produce the required FTES to meet its FTES goal and other aspects of the college's mission given the operating philosophy of the college. Discretionary goods and services include: non-teaching salaries and benefits, net of salary savings; supplies, operating expenses, equipment, college contingencies, and contributions to programs supported by grants and contracts.

Colleges will be allowed to keep their salary savings from non-teaching vacancies and could use for other discretionary purposes. A good-faith effort at estimating salary savings would be required in establishing the proposed budget in order to project costs correctly and to avoid overstating budget shortfalls in other discretionary expense allocations.

Due to vastly reduced reserve levels and overstatement of salary savings in 199394, there will be no salary savings included in the 1994-95 Final Budget. Actual salary savings will be tracked during 1994-95 and utilized as a basis to project salary savings for subsequent budget years.

If the instructional salaries category is overspent, the Colleges would have to fund shortfalls from discretionary allocations.

Colleges will be allowed to carryover the unspent amount of the Fourth Quarter discretionary salaries, supplies, operating expense and equipment allocations up to 10% of the total end-of-year budgets for these categories.

3.0 APPLICATION OF THE FORMULA

This section describes several scenarios and how the formula would be applied in each case. The relationship between enrollment, WSCH goals, and funding for discretionary expenses is described.

3.1 Base Year Allocation

Table 3-1 shows the base year for each college. This simulation is based on the following assumptions:

1. The total District WSCH goal is 10,000 WSCH.
2. The WSCH division between college A and college B is 60:40.
3. Each college has a WSCH/FTE goal of 500 WSCH/FTE.
4. The discretionary funding available at step 5 of the flowchart is $100,000. Therefore the discretionary funding per WSCH is $10.00.

We propose that the base year is 1994-95.

For purposes of determining whether the Colleges have achieved their respective WSCH goals for the year, the year is normally defined as the regular academic year (late June-July summer session, Fall semester and Spring semester).

Table 3-1. Base year funding level. (1993-94)

	BASE YEAR
CATEGORY	GOAL/BUDGET
COLLEGE A	
WSCH GOAL	6,000
WSCH/FTE	500
FTE ALLOCATION	12.00
DISCRETIONARY $	$60,000
$ / WSCH	$10.00
COLLEGE B	
WSCH GOAL	4,000
WSCH/FTE	500
FTE ALLOCATION	8.00
DISCRETIONARY $	$40,000
$ / WSCH	$10.00
DISTRICT	
WSCH GOAL	10,000
WSCH/FTE	500
FTE ALLOCATION	20.00
DISCRETIONARY	$100,000
$ / WSCH	$10.00

3.2 Scenario One: District makes it WSCH goal but one college falls short.

This scenario shows what would happen in year two if the District made its overall WSCH goal in the base year, and so receives a full apportionment for that year, but one college fell short of its WSCH goal. College A produced enough WSCH in excess of its goal to compensate for the shortfall at College B. See Table 3-2.

This simulation is also based on the following assumptions.

1. The total District WSCH goal is 10,000 WSCH.

2. The initial WSCH division in the base year between college A and college B is 60:40.

3. Each college has a WSCH/FTE goal of 500 WSCH/FTE.

4. The discretionary funding available at step 5 of the flowchart is $100,000.

5. If college A falls short of its WSCH goal in a given year (and College B makes it WSCH goal plus more WSCH above goal than College A falls short) its WSCH goal for the following year will be lowered by 50% of the WSCH shortage.

6. College B, which produced more WSCH than required will have its goal raised by the same amount of WSCH that College A loses.

7. Discretionary funding will still be allocated to each college at the rate of $10.00 per WSCH in their goal.

Table 3-2. Year 2 funding if District makes goal but one college falls short of its goal while the other college exceeds its goal.

	BASE YEAR	BASE YEAR		YEAR 2
CATEGORY	GOAL/BUDGET	ACTUAL	VARIANCE	GOAL/BUDGET
COLLEGE A				
WSCH	6,000	5,500	(500)	5,750
WSCH/FTE	500	458	(42)	500
FTE ALLOCATION	12.00	12.00	0.00	11.50
DISCRETIONARY $	$60,000	$60,000	$0	$57,500
$ / WSCH	$10.00	$10.91	$0.91	$10.00
COLLEGE 8				
WSCH	4,000	4,500	500	4,250
WSCH/FTE	500	563	63	500
FTE ALLOCATION	8.00	8.00	0.00	8.50
DISCRETIONARY $	$40,000	$40,000	$0	$42,500
$ / WSCH	$10.00	$8.89	($1.11)	$10.00
DISTRICT				
WSCH	10,000	10,000	0	10,000
WSCH/FTE	500	500	0	500
FTE ALLOCATION	20.00	20.00	0.00	20.00
DISCRETIONARY	$100,000	$100,000	$0	$100,000
$ / WSCH	$10.00	$10.00	$0.00	$10.00

3.3 Scenario Two: One college fails to reach its goal and the District fails to reach its goal.

This scenario shows what would happen in year two if the District did not make its overall WSCH goal in the base year, because one college fell short of its WSCH goal while the other college made its WSCH goal (but not enough extra WSCH to make up for the first college's shortfall). That is, the District falls below the funded enrollment cap. In this situation, the District would expect less in apportionment during the fiscal year following the decline (year two). If no restoration of enrollment occurs during year two, then in that year the apportionment is reduced by one-third of the total reduction of funds due to the enrollment decline. To be conservative, we assume that no restoration would occur, and therefore there is less to be allocated for discretionary expenses. See Table 3-3.

This simulation is also based on the following assumptions:

1. The total District WSCH goal is 10,000 WSCH.

2. The initial WSCH division in the base year between college A and college B is 60:40.

3. Each college has a WSCH/FTE goal of 500 WSCH/FTE.

4. The discretionary funding available at step 5 in the base year of the flowchart is $100,000. However, the total discretionary funding that the District receives in year two will be one third of the short fall in WSCH. College A, which did not meet its goal, would bear the entire anticipated cut in discretionary funding and receive less $/WSCH for discretionary expenses. College B would receive $10/WSCH.

5. The District desires to reach cap in year two and restore the enrollment decline, and thus sets the total of the two WSCH goals still at 10,000 WSCH. But, to meet apparent changing community needs, College A, which fell short of its WSCH goal in the base year (and College B meets its goal but does not exceed it enough to make up for College A's shortfall), has its WSCH goal for the following year lowered by 50% of the WSCH shortage. College B, which produced its goal, will have its goal raised by the same amount of WSCH that the first college is reduced.

If enrollment is restored to cap in year two, or even partially restored, then the District would actually receive the additional funds earned in year three. This funding would be treated as a one-time revenue augmentation received in year three, and would be input into the allocation model at step 1. The impact of this would be that the restored funding would be split between the colleges' discretionary allocations based on the WSCH goals in year three.

Table 3-3. Year 2 funding if one college falls short of its goal while the other college makes its goal, thus resulting in the District being below cap.

	BASE YEAR	BASE YEAR		YEAR 2
CATEGORY	GOAL/BUDGET	ACTUAL	VARIANCE	GOAL/BUDGET
COLLEGE A				
WSCH	6,000	5,500	(500)	5,750
WSCH/FTE	500	458	(42)	500
FTE ALLOCATION	12.00	12.00	0.00	11.50
DISCRETIONARY $	$60,000	$60,000	$0	$54,167
$ / WSCH	$10.00	$10.91	$0.91	$9.42
COLLEGE B				
WSCH	4,000	4,000	0	4,250
WSCH/FTE	500	500	0	500
FTE ALLOCATION	8.00	8.00	0.00	8.50
DISCRETIONARY $	$40,000	$40,000	$0	$42,500
$ / WSCH	$10.00	$10.00	$0.00	$10.00
DISTRICT				
WSCH	10,000	9,500	(500)	10,000
WSCH/FTE	500	475	(25)	500
FTE ALLOCATION	20.00	20.00	0.00	20.00
DISCRETIONARY	$100,000	$95,000	($5,000)	$96.667
$ / WSCH	$10.00	$10.00	$0.00	$9.67

3.4 Scenario Three: Both colleges fail to reach their goal and the District fails to reach its goal.

This scenario shows what would happen in year two if the District did not make its overall WSCH goal in the base year, because both colleges fell short of their WSCH goals. That is, the District falls below the funded enrollment cap. In this situation, the District would expect less in apportionment during the fiscal year following the decline (year two). If no restoration of enrollment occurs during year two, then in that year the apportionment is reduced by one-third of the total reduction of funds due to the enrollment decline. To be conservative, we assume that no restoration would occur, and therefore there is less to be allocated for discretionary expenses. See Table 3-4.

This simulation is also based on the following assumptions:

1. The total District WSCH goal is 10,000 WSCH.

2. The initial WSCH division in the base year between college A and college B is 60:40.

3. Each college has a WSCH/FTE goal of 500 WSCH/FTE.

4. The discretionary funding available at step 5 in the base year of the flowchart is $100,000. However, the total discretionary funding that the District receives in year two will be one third of the short fall in WSCH. Since both colleges fell short of their WSCH goals, the reduced funds available for discretionary expenses will be divided between the two colleges on the basis of the ratio of their respective WSCH goals. Each college would receive the same $/WSCH.

5. The District desires to reach cap in year two, and thus sets the total District WSCH goals at 10,000 WSCH. However, the split of WSCH is determined to allow flexibility to meet the apparent changing needs of the community. Half of the decline in WSCH is added to the base year's actuals for each college's year two goal. The other half of the decline in WSCH is divided between the colleges and added to their goals at the discretion of the Chancellor and her advisors, to meet the long range goals of the District.

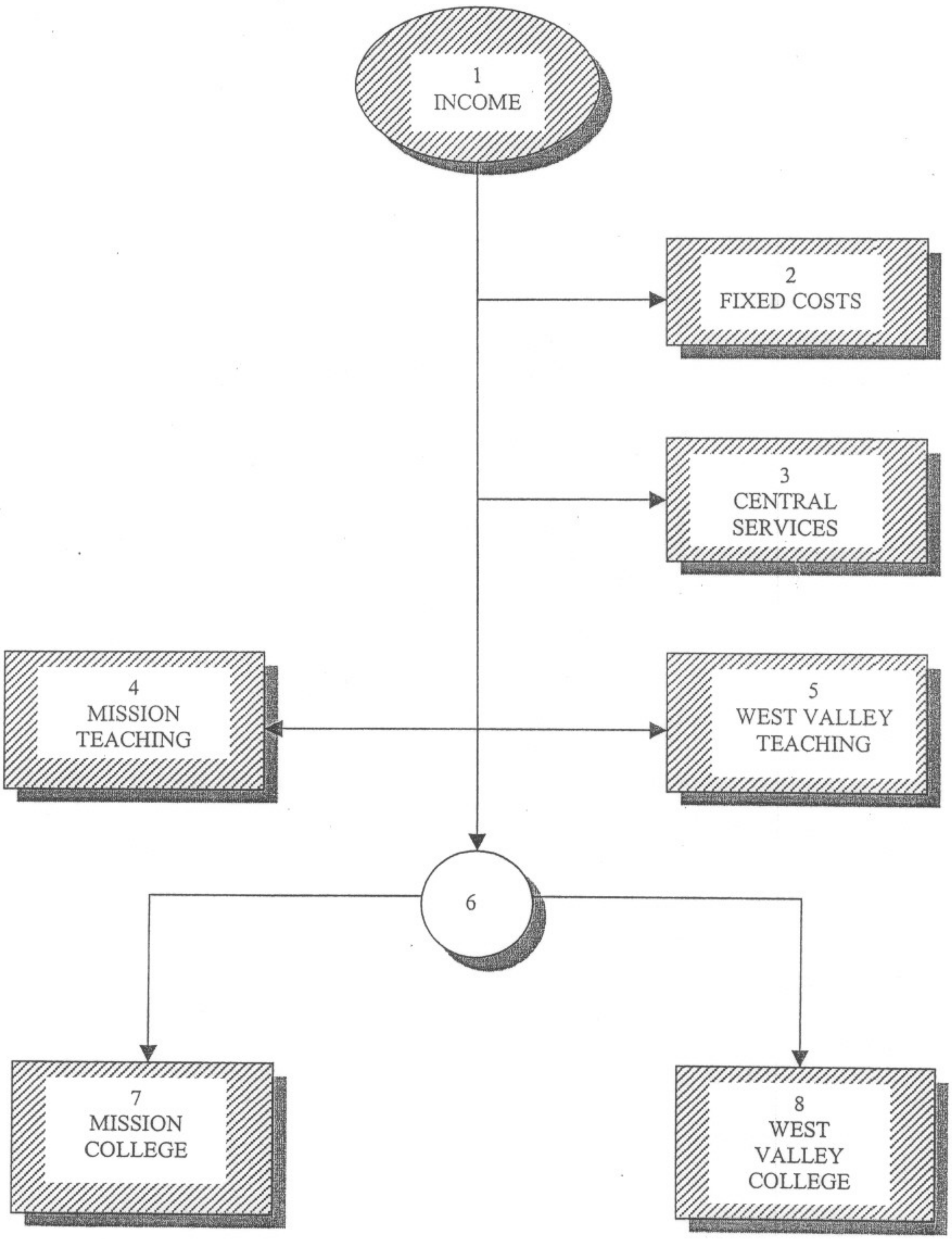
If enrollment is restored to cap in year two, or even partially restored, then the District would actually receive the additional funds earned in the base year in year three. This funding would be treated as a one-time revenue au.gmentation received in year three, and would be input into the allocation model at step 1. The impact of this would be that the restored funding would be split between the colleges' discretionary allocations based on the WSCH goals in year three.

Table 3-4. Both colleges fail to meet their WSCH goals.

	BASE YEAR	BASE YEAR		YEAR 2
CATEGORY	GOAL/BUDGET	ACTUAL	VARIANCE	GOAL/BUDGET
COLLEGE A				
WSCH	6,000	5,600	(400)	6,000
WSCH/FTE	500	467	(33)	500
FTE ALLOCATION	12.00	12.00	0.00	12.00
DISCRETIONARY $	$60,000	$60,000	$0	$55,333
$ / WSCH	$10.00	$10.71	$0.71	$9.22
COLLEGE B				
WSCH	4,000	3,800	(200)	4,000
WSCH/FTE	500	475	(25)	500
FTE ALLOCATION	8.00	8.00	0.00	8.00
DISCRETIONARY $	$40,000	$40,000	$0	$37,667
$ / WSCH	$10.00	$10.53	$0.53	$9.42
DISTRICT				
WSCH	10,000	9,400	(600)	10,000
WSCH/FTE	500	470	(30)	500
FTE ALLOCATION	20.00	20.00	0.00	20.00
DISCRETIONARY	$100,000	$94,000	($6,000)	$93,000
$ / WSCH	$10.00	$10.00	$0.00	$9.30

2.0 THE BASIC MODEL
1994-95 INITIAL BUDGET

As presented to BOT
Figure 1



West Valley-Mission Community College
District Key Areas for Budget Development
FY 2005-2006

ALLOCATION MODEL (see attached flow chart)

The current allocation model first funds all permanent salary and benefit expenses as well as all fixed cost items approved by DBAC. Remaining available funds are then allocated for operational expenses (see "Operating Budgets" section below).

Salary and Benefits (POSITION CONTROL)

1. Position Information

The following data elements are updated based on Board Items and verified to source documents (i.e. PARS, COS, contracts) and are reconciled with the college's HR staff twice a year:

1. Position Control ID number
2. Title
3. FTE
4. Account
5. Funding source
6. Filled/Unfilled status
7. Funded/De-funded status
8. Incumbent's name (if filled)
9. Reconciliation of total FTE by Fund and by account class and major object grouping.

2. Salary Data

The following data elements are reviewed and updated twice annually:

1. Step and range information
2. Anniversary date
3. Salary tables
4. Current year's YTD actual salaries paid (download from QSS and Datatel)
5. Identification of unfilled positions and budgeting unfilled positions as follows:
   a. Unfilled Faculty positions budgeted at Column D of salary schedule
   b. b. Unfilled Classified positions budgeted at step B of salary schedule
6. Projected future year's annual salary based on incumbent's step and range information and most current salary schedules
7. Projected future year's annual salary based on incumbent's actual YTD earnings based on ass (county payroll system).
8. For each incumbent, results from 'step 6 and step 7 are compared and reconciled to determine appropriate salary funding for upcoming fiscal year.

3. Medical Benefits Data

The following data elements are reviewed and later used to calculate an estimated weighted average cost for medical benefits per FTE:

Active Employees

1. Employee enrollment on each health plan offered
2. Current monthly rates for each plan per Health Benefit Consultant (verified with monthly invoices received to date).
3. Projected monthly rates per plan per Health Benefit Consultant

Retired Employees eligible for benefits

1. Retiree enrollment on each health plan offered
2. Current monthly rates for each plan per Health Benefit Consultant (verified with monthly invoices received to date).
3. Projected monthly rates per plan per Health Benefit Consultant
4. Inclusion of estimated new retirees for upcoming fiscal year.

4. Mandatory Benefits Data

List of mandatory benefits are updated twice annually and reviewed with Accounting Manager and Payroll Supervisor for accuracy.

ASSOCIATE FACULTY FUNDING MODEL

See attached Associate Faculty Funding Model.

FIXED COSTS

1. Fixed cost sub-committee is reconvened twice annually.
2. DBAC is informed that the Fixed Cost Sub-committee will meet and DBAC members are asked to inform their constituency that new proposals will be reviewed as well as standing fixed cost items.
3. Administrators of existing Fixed Cost items are asked to review and provide updates for each of their items.
4. The Fixed Cost Sub-committee meets and reviews proposed changes to fixed cost items as well as new proposals. Final list of items are sent forward to DBAC for their approval.
5. Fixed Cost list is presented to DBAC and reviewed by all members. DBAC is asked to approve the list and send forward to Vice Chancellor for inclusion in Tentative and Final Budget.

OPERATING BUDGETS

Previous year's operating budget totals +/- permanent changes to operating budget = the new year's beginning operating target amounts. From this base, and new available monies (see allocation model) are split between the Colleges and the District Offices.

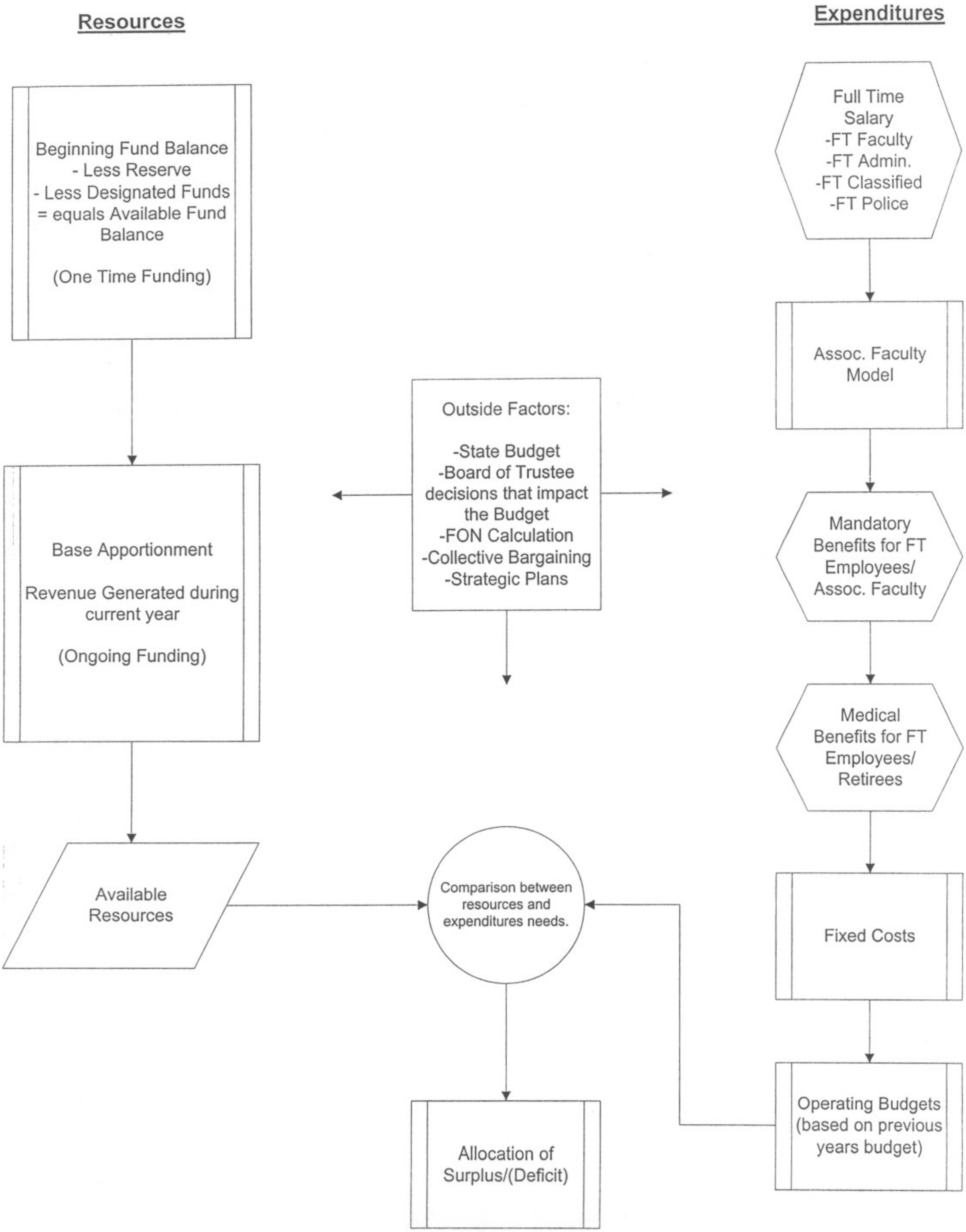
In the event of deficits, the deficits are also split between the Colleges and the District.

ENTREPRENEURIAL MONIES (Fund 017)

The Colleges and the District determine the appropriate anticipated revenue generated by their various programs (based on previous years activities modified by known anticipated changes). Offsetting revenue and expense budgets are submitted as part of the tentative and final budget line item detail.

Each year a substantial carryover is re-established for both Colleges and the District. However, carryover budgets are not included as part of the submitted tentative and final budget.

Fund 100
Allocation Model
FY 2005-2006



Appendix D

Draft Budget Allocation Model of the Budget Allocation Model Subcommittee, November 16, 2005

Introduction to Activity Based Costing

BUDGET ALLOCATION MODEL SUBCOMMITTEE
November 16, 2005

DRAFT ALLOCATION MODEL

Introduction and Overview

In June 2003, as a recommendation from the District Budget Advisory Committee (DBAC), the Budget Allocation Model Subcommittee (BAMS) was formed to review and revise the Budget Allocation Model and to develop and identify a philosophy and objective for the model.

In March 2004, as part of its Budget Priorities, the Board of Trustees identified the need for a new allocation:

> The District is to "Pursue the development of a budget allocation model to assist in developing sound fiscal practices that will provide objectivity, equity, and stability to the operations of the District. The District will implement a model that includes a formula for establishing the level of FTE of classified, administrators, counselors, and librarians needed to support the District's operations…" and to "Achieve the 75% full-time/part-time faculty threshold through a carefully selected variety of methods."

Purpose

BAMS has worked together for two years to develop a recommendation to DBAC that would revise the allocation of resources for the purpose of:

- Developing sound fiscal practices that will provide objectivity, equity, and stability to the operations of the District to maximize student learning outcomes;
- Implementing changes to the FY 06/07 Budget to distribute funds based on actual needs (ABC – Activity Based Costing) and, to the extent possible, based on prior year actual expenditures.
- Having a model that is simple to understand, apply, and is fair to all entities.
- Having a flexible model that can be adjusted for growth and reduction.
- Clearly documenting all information on how the model works, including definitions, formulas, inputs into the model, and the outside factors that affect them.
- Looking at WSCH/FTE ratios and establish realistic goals.
- Using the allocation model as a planning tool.
- Incorporating new expenditures, including new employees, into the allocation model.
- Incorporating collective bargaining.
- Addressing District goals.
- Imposing/incorporating Fiscal Standards.

Membership
Current members
Vice Chancellor (Chair)
Director, Fiscal Services
Budget Manager
VP Instruction (MC or WVC)
VP Student Services (Alternate college from VP Instruction)
MC Academic Senate
WVC Academic Senate
MC Dean, Administrative Services
WVC Dean, Administrative Services
MC Classified Senate
WVC Classified Senate
ACE Representative
SEIU Representative
Principal Financial Analyst

Committee Process
BAMS began its work by reviewing the current allocation model and identifying problems within its framework. Once the problems were identified, BAMS concentrated on issues that could be easily resolved and implemented immediately. The committee also evaluated other community college allocation models to determine different and/or better ways for the District to allocate its funds. In January 2005, two all-day working sessions were scheduled to "jump-start" the committee, who by this time, had become disenchanted with the process due to turn-over in leadership and a new direction from the interim Vice Chancellor. Finally, in April 2005, the committee decided to move towards zero-based budgeting or activity-based costing.

Recommendation
The concept for the new model is to invert the Organizational structure (attached) and allocate on-going undesignated resources by the FTES split. The Districtwide Fixed Costs and Administrative Services Costs would then be charged back by the FTES split to the Colleges. In theory, the Colleges are buying back services based on their needs

The Activity Based Costing (ABC) model for expenditures would be phased-in with implementation proposed for the instructional departments for FY 06/07 and non-instructional/service departments for FY 07/08. This model will be used by all departments to justify costs and allocate funding.

The concept of the ABC model is to assign a cost of "doing business" at a departmental level. The cost of services may be tied to performance measures (number of students serviced) or a service level desired (no more than 5 students wait in line at A&R).

All of the above concepts need to be evaluated and aligned with a Strategic Master Plan or measurable outcomes identified in the College's E&FMP and Administrative Services S&FMP.

Ideally, the strategic plans should address or assess the following based on long-term and short-term objectives:

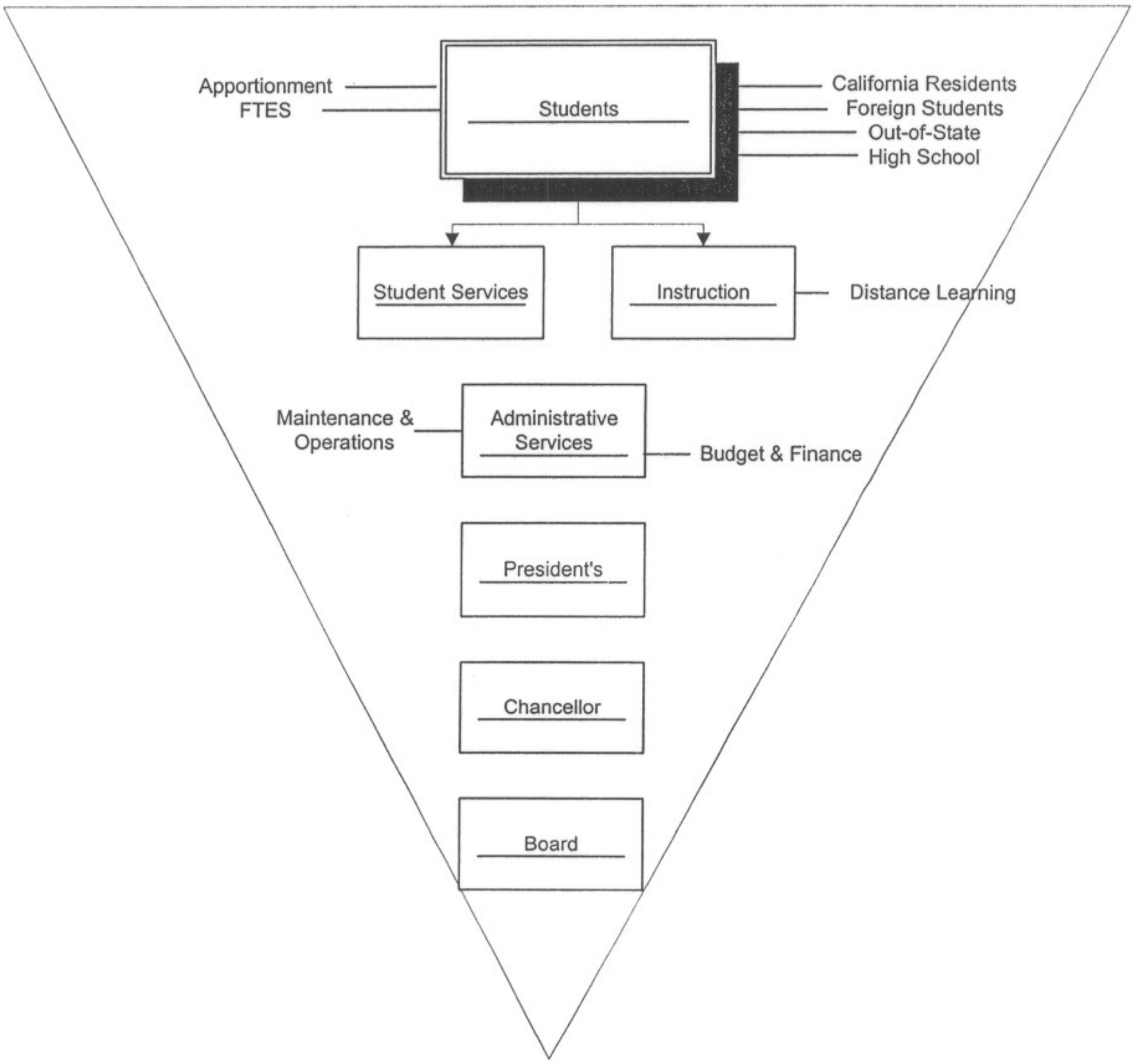
Student Achievement
Staff organization/line organization relationships
Evaluation of Programs/Courses
Enrollment Management/Projections
Determination of Faculty/Staff Levels
Space Inventory
Technology
Collective Bargaining
Effective use of all sources of revenues

The outcome of any new model will be successful if there is a united approach, trust, communication, training, and ownership.

Future Recommendations:

BUDGET ALLOCATION MODEL SUBCOMMITTEE
November 16, 2005

SUGGESTED STRUCTURAL FRAMEWORK FOR ALLOCATION MODEL



AN INTRODUCTION TO

ACTIVITY BASED COSTING

FOR THE

OPERATING BUDGET PORTION OF WSCH-GENERATING DEPARTMENTS

IN THE

WEST VALLEY MISSION

COMMUNITY COLLEGE DISTRICT

13 JANUARY 2006

INTRODUCTION

The WVMCCD BAMS of DBAC (West Valley Mission Community College District Budget Allocation Model Subcommittee of the District Budget Advisory Committee ☺) has developed a new budget allocation model for the district. The overall philosophy of this model has been presented in a series of meetings throughout the district.

The district has already developed and implemented over a number of years through the Performance Goals Committees (PGC) at each college a method for allocating full and part-time faculty FTEF (Full Time Equivalent Faculty) to each college and to the individual WSCH (Weekly Student Contact Hours) generating departments within each college. However, no comparable process has been developed for allocating funds to the operating budgets of these departments. This lack of process has led to considerable controversy in the past in spite of the fact that operating funds account for less than two percent of the total district budget.

This level of "interest" in operating budgets, coupled with the fact that WSCH generating departments already have established performance or activity levels (e.g. WSCH/FTEF goals) has led BAMS to pilot the Activity Based Costing (ABC) process in the WSCH generating departments. The plan is have at least one department in each of the divisions at each college go through the ABC process for the 2006-2007 budget. These departments would undergo all necessary training and also provide feedback for improving the process; they would then serve as coaches for the other departments within their divisions who in turn will complete the process for the 2007-2008 budget.

Pages 3 through 7 show the type of training manual that BAMS anticipates producing to support the implementation of the ABC process. It is also planned to have several individuals who are proficient in excel available throughout the pilot process to assist the departments selected for the pilot program. Pages 9 through 14 are copies of worksheets used in this presentation.

Participation in the pilot program is based on two requirements. The first is that the department has an approved PGC Plan for the 2006-2007 year. The second is that the department has a record of previous expenditures that can be attributed to individual courses or activities within the department that support the faculty-generated, district-approved curriculum. In other words the pilot program has not been designed to deal with activities for which there is no track record.

Appendix E

Study Agreement

FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
August 4, 2006

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and West Valley-Mission Community College District, hereinafter referred to as the College, mutually agree as follows:

1. BASIS OF AGREEMENT

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

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are to:

1. Conduct an analysis (including the processes and procedures used to develop the budget) of the District's annual budget and prepare a multi-year financial forecast for fiscal years 2007-08 and 2008-09. This analysis should include the following:
   - Review the District for effective use of resource management
   - Evaluate budget decision-making/management process
   - Prioritization of resources

2. Complete a Fiscal Health Analysis of the District using the California Community Colleges Sound Fiscal Management Self-Assessment Checklist to determine the District's current level of financial risk.
   - Review of the financial measurement system (actual to budget comparison)
   - Review of the accountability system (enforcement of processes)
   - Review Fund 17

3. Review parameters of the 50% Law as it relates to:
   - procedures regarding entrepreneurial activities (Fund 17)
   - Lottery

4. Explore best practices for a Board of Trustees in fiscal management.

5. Review the District allocation of resources model.

B. Services and Products to be Provided

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

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

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

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

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

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

3. PROJECT PERSONNEL

The study team will be supervised by Anthony Bridges, Interim Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

A. Michelle Plumbtree, FCMAT Fiscal Intervention Specialist
B. Roy Stutzman, FCMAT Community College Consultant

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

4. PROJECT COSTS

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

A. $500.00 per day for each FCMAT staff Member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent consultants will be billed at the actual daily rate based on the provisions of E.C. 84041. Estimated cost of the review, based on the scope items included in section 2A is $15,000. The College will be billed for actual costs.

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

C. The College will be billed for the cost of the onsite review immediately following the review, and for the remainder of the cost of the review following acceptance of the final FCMAT report.

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

5. RESPONSIBILITIES OF THE COLLEGE

A. The College will provide office and conference room space while on-site reviews are in progress.

B. The College will provide the following (if requested):

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

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

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

6. PROJECT SCHEDULE

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

Orientation:	August 21, 2006
Staff Interviews:	August 21 - 25, 2006
Exit Interviews:	August 25, 2006
Preliminary Report Submitted:	October 6, 2006
Final Report Submitted:	To be determined
Board Presentation:	To be determined

7. CONTACT PERSON

Please print name of contact person: Jack H. Mahrt, Vice Chancellor of Administrative Services

Telephone 408 741-2082 FAX

Internet Address jack_mahrt@wvmccd.cc.ca.us

8-10-06

Stan R. Arterberry, Chancellor Date
West Valley-Mission Community College District

Barbara Dean Aug. 4, 2006

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