Consideration of the 15 bulleted items on the State Chancellor’s Office “Sound Fiscal Management Self-Assessment Checklist” ([#IIID-24](http://inside.redwoods.edu/Evidence/StandardIIID/IIID-24%20Checklist.pdf)) reveals that the College substantially meets the fifteen indicators of fiscal health.

The College’s September 2015 self-evaluation with respect to each of the fifteen areas in the checklist is as follows:

1. Deficit Spending - Is this area acceptable? Yes, spending is under control.

* Is the College spending within their revenue budget in the current year? Yes. The 2015-16 Final Budget is balanced in large part due to a base budget increase supported by Governor Brown and the Legislature. Given conservative budgeting practices, this budget is balanced and is not out-of-control. The three year budget forecast can be balanced provided the Governor continues a multiyear base budget augment he promised for community colleges. If the State economy takes a downturn, then the State only has enough rainy day funds to avoid across-the-board cuts for perhaps one year. In that instance, the Governor might not have the resources available to uphold the commitment to base budget increases. The State could place scheduled increases to pension payments on hold temporarily or enact other forms of relief. If there is not enough relief to balance the District’s budget, then enrollments must grow for the College to avoid additional reductions-in-force (RIFs) and cuts.
* Has the College controlled deficit spending over multiple years? Yes, the College was depleting its fund balance and reducing its fund balance percentage in prior years. That has been stabilized and the fund balance is being held above 6% with a partial restoration of salary cuts.
* Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions? Yes, deficit spending has primarily been controlled through spending cuts, including across-the-board payroll concessions. Some pay concessions were restored, with a goal of keeping the fund balance above 6% including restoration.
* Are College revenue estimates based upon past history? Yes. This year the District will be on enrollment stability, so FTES levels are fixed. The multiyear forecast includes a small enrollment decline to keep the forecast conservative. Revenue estimates have been created with appropriate procedures to avoid inflated or unrealistic estimates. The revenue estimate is reviewed and recommended to the President/Superintendent by the Budget Planning Committee. At present, the Chancellor’s Office has not released a complete advanced apportionment report, so base budget increases have been estimated. We will true up the budget to the Chancellor’s calculations once we receive their report.
* Does the College automatically build in growth-revenue estimates? No. Beginning in 2011-12, the College stopped budgeting with assumptions of growth funding. The multiyear forecast includes a small FTES decline. It is appropriate to answer “No” to this question as sustainable enrollment growth funding has not been coming from the State for several years, and the College has a recent history of flat or contracting enrollment.

2. Fund Balance – Is this area acceptable? Yes.

* Is the College’s fund balance stable or consistently increasing? Yes. The fund balance is being maintained above 6% and is forecast to grow at a small rate over the three year multiyear forecast. The 2014-15 beginning fund balance increased more than expected due several advantageous closing adjustments for 2013-14. Then, the District agreed to partially restore some pay cuts, but only where the restoration would not drop fund balance below 6%. The District has demonstrated the wherewithal in recent years to make difficult budget cutting decisions. Should the Governor and the Legislature not provide sufficient augments to cover cost increases, the District will need to move quickly on additional budget balancing decisions.
* Is the fund balance increasing due to on-going revenue increases and/or expenditure reductions? Yes, fund balance is being managed to stay above 6% and forecasts are including modest fund balance growth.

3. Enrollment - Is this area acceptable? No. Full-time Equivalent Student (FTES) enrollments are not growing and continue to contract. The multiyear forecast includes another small enrollment drop. The District must stabilize enrollments to avoid having to implement budget cuts and “resizing the District’s services” for fewer students.

* Has the College’s enrollment been increasing or stable for multiple years? No, enrollments have been falling for several years. The only apparent relief was in 2014-15. However, that apparent enrollment growth is only due to the inclusion of both the leading and trailing summer enrollments in order to maximize stability funding the next year. Fall-to-fall-to-fall enrollments continue to disappoint.
* Are the College’s enrollment projections updated at least semiannually? Yes
* Are staffing adjustments consistent with the enrollment trends? Partially yes. Employee ranks were reduced over multiple years. However, if enrollments continue to decline, then additional reductions will be needed to downsize the college to a level appropriate for the smaller student population. The District cannot run a college that is staffed for an “aspirational level” of students.
* Does the College analyze enrollment and full time equivalent students (FTES) data? Yes
* Does the College track historical data to establish future trends between P-1 and annual for projection purposes? Yes
* Has the College avoided stabilization funding? No, the District is actively planning to maximize revenue through enrollment stability funding. This short-term tactic will continue so long as FTES enrollments continue to contract.

4. Unrestricted General Fund Balance – Is this area acceptable? Yes, the fund balance percent is above 6% and the Final Budget forecasts a slight improvement in the fund balance percentage.

* Is the College’s unrestricted general fund balance consistently maintained at or above the recommended minimum prudent level (5% of the total unrestricted general fund expenditures)? Yes, the District’s target is to incrementally increase the fund balance over multiple years and to not allow the fund balance to drop below 6%.

Administrative procedure 6200 Budget Preparation to include the following requirements on fund balance (See p. 8 of <http://www.redwoods.edu/district/board/documents/February42014packet.pdf>):

The annual budget shall be reported to the Board at its September meeting as the Final Budget. Each year the Tentative and Final Budgets shall maintain an unrestricted general fund balance as follows:

If the fund balance is below 5.0%, the budget shall restore the year-end fund balance to 5.0%;

If the fund balance is below 10% but greater than 5.0%, the budget shall steadily increase the fund balance to a goal of 10% (equal to about 1.5 months of payroll expenditures); and

If the fund balance is greater than 10%:

The budget may maintain the fund balance or steadily reduce the fund balance to no less than 10%, or may increase the fund balance further, but shall include an explanation of the need to accumulate an excess fund balance above 10% (i.e. as a reserve for potential mid-year cut in State funding, to fund a multiyear strategic initiative, etc.).

* Is the College’s unrestricted fund balance maintained throughout the year? Yes.

5. Cash Flow Borrowing - Is this area acceptable? Yes

* Can the College manage its cash flow without interfund borrowing? Yes. At present the College is projecting to meet its cash flow needs without interfund borrowing.
* Is the College repaying TRANS and/or borrowed funds within the required statutory period? Yes

6. Bargaining Agreements - Is this area acceptable? Yes. Certain cost drivers, such as health and welfare benefits inflation are increasing faster than the 1% or so State COLA and these unfunded costs will need to be addressed to ensure long fiscal stability.

* Has the College settled bargaining agreements within new revenue sources during the past three years? No, the College settled both bargaining agreements with temporary payroll concessions instead. A no answer here is appropriate.
* Did the College conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? Yes
* Did the College correctly identify the related costs? Yes
* Did the College address budget reductions necessary to sustain the total compensation increase? Yes. However, additional payroll cost reductions will be needed if enrollments do not begin to grow.

7. Unrestricted General Fund Staffing - Is this area acceptable? Yes

* Is the College ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses? Yes.
* Is the percentage of College general fund budget allocated to salaries and benefits at or less than the statewide average? Yes, the College’s average was above the statewide average as noted on the State Chancellor’s Office Fiscal Trend Analysis reports. This is an area of concern to be addressed through District strategic planning. The chart below summarizes the State Chancellor’s Office fiscal trend data:



8. Internal Controls - Is this area acceptable? Yes

* Does the College have adequate internal controls to insure the integrity of the general ledger? Yes
* Does the College have adequate internal controls to safeguard the College’s assets? Yes ([#IIID-26](http://inside.redwoods.edu/Evidence/StandardIIID/IIID-26%20Audit%20Report.pdf)).

9. Management Information Systems - Is this area acceptable? Partially yes. The District is currently implementing necessary procedures for Affordable Care Act (ACA) compliance. These procedures require employees to learn new screens and for various information to be updated in Human Resources records. These are significant changes and require much coordination between the Information Systems office and Human Resources and Payroll departments.

* Is the College data accurate and timely? Yes
* Are the county and State reports filed in a timely manner? Yes Although occasionally a report has been tardy, there have been no major delays in report submissions.
* Are key fiscal reports readily available and understandable? Yes

10. Position Control – Is this area acceptable? Yes

* Is position control integrated with payroll? No. Position control is maintained through a database and a practice of requiring multiple approvals for all hiring. The College has not seen problems with this procedure.
* Does the College control unauthorized hiring? Yes
* Does the College have controls over part-time academic staff hiring? Yes

11. Budget Monitoring - Is this area acceptable? Yes

* Is there sufficient consideration to the budget, related to long-term bargaining agreements? Yes
* Are budget revisions completed in a timely manner? Yes
* Does the College openly discuss the impact of budget revisions at the Board level? Yes
* Are budget revisions made or confirmed by the Board in a timely manner after the collective bargaining agreements are ratified? Yes
* Has the College’s long-term debt decreased from the prior fiscal year? No. A no on this question is appropriate.
* Has the College identified the repayment sources for the long-term debt? Yes
* Does the College compile annualized revenue and expenditure projections throughout the year? Yes

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

* Has the College completed an actuarial calculation to determine the unfunded liability? Yes
* Does the College have a plan for addressing the retiree benefits liabilities? Yes, Total Compensation Systems provides and actuarial report and a supplemental report to ensure a prudent funding level in the Employee Benefits Fund.

13. Leadership/Stability - Is this area acceptable? Marginally, yes. The District had an unsuccessful search for a new President/Superintendent and now operates with an interim. A review of the management and administrator ranks reveals very few employees at or near the top of their step schedule, perhaps indicating excessive employee turnover. As of this report, these employee groups are the only employees who have not seen full restoration of their pay cuts.

* Has the College experienced recent turnover in its management team (including the Chief Executive Officer, Chief Business Officer, and Board of Trustees)? Yes, the President/Superintendent retired and was replaced by an interim after a failed search.

14. College Liability – Is this area acceptable? Yes

* Has the College performed the proper legal analysis regarding potential lawsuits that may require the College to maintain increased reserve levels? Yes
* Has the College set up contingent liabilities for anticipated settlements, legal fees, etc. N/A. The College has not identified any material items in this area.

15. Reporting – Is this area acceptable? Yes

* Has the College filed the annual audit report with the System Office on a timely basis? Yes
* Has the College taken appropriate actions to address material findings cited in their annual audit report? Yes. No new material findings were noted in the latest audit report and previous findings were cleared with a notation of repeat issues.
* Has the College met the requirements of the 50 percent law? Yes
* 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.

Summary of conclusions: Based on this self-assessment, three fiscal risks clearly stand out for the District.

1. The District must stabilize and increase student enrollments.
2. The District’s budget is built on the Governor meeting his commitment to provide additional base budget augments. If the Governor fails to deliver, other budget solutions will need to be rapidly implemented.
3. For long term fiscal stability, the District will need to address items where inflation is increasing faster than the growth in the State budget, i.e. 1% annual State COLA. These items include health and welfare benefits cost inflation which is typically in the range of a 6% annual increase and the cost of annual salary steps which are well in excess of the COLA. Salary steps should be helped by employee retirement and turnover, but only the relatively small ranks of administrators and manager are showing much turnover.