



District-wide Budget Committee

Sub-Committee #2

Reserves Recommendations

September 2018 (revised)

District-wide Budget

Committee Members

* Member of Sub-Committee #2

Bakersfield

Donald Chrusciel *
Zav Dadabhoy *
Stephanie Vega
Steven Holmes*
Nick Strobel*
Mary Webb*

Cerro Coso

Lisa Couch*
Matt Crow*
Katie Bachmann
Frank Timpone*
Heather Ostash
Corey Marvin*

Porterville

Arlitha Harmon*
Richard Goode*
Ann Marie Wagstaff
Val Garcia
Sam Aunai*
Jennie Brisson*

KCCD

Deborah Martin
Tonya Davis

BACKGROUND

In the summer of 2015, the KCCD Chancellor asked the District Consultation Council to assemble a workgroup to conduct a third evaluation of the District-wide Unrestricted Fund Budget Allocation Model (BAM). The District Budget Committee was established in fall 2017 per the BAM Evaluation III Committee's ("BEC") recommendation. Subcommittee #2's responsibilities include the review of District-wide processes related to budget development to make recommendations to impact long term operations or allocations. Sub Committee #2 charge was to:

- Review annual District-wide budget development premises
- Review long-term trends in District-wide fiscal health

The review of the annual District-wide budget development premises necessitated a detail analysis of the California Community College Chancellor's Office funding CCCC (Schedule C Allocation to audited financials), KCCD District carryover, and annual allocations. To discuss the trends impacting the long-term District-wide fiscal health, the subcommittee focused on maintaining KCCD's fiscal stability while ensuring adequate college funding levels. Simply put, the discussion evaluated the process of aligning financial capacity with long-term service objectives. The evaluation process included reviewing all the California community colleges ending fund balance for the last three years for benchmarking purposes. KCCD is consistently ranked as having one of the top five highest ending unrestricted fund balance. However, some of the comparison multi-college districts have allocated a significant portion of their fund balance (reserves) to hedge against long term obligations (i.e. San Diego Community College District).

Additionally, the subcommittee conducted a fiscal risk assessment based on fiscal best practices (i.e. GFOA, FCMAT, PARS, NACUBO, and Community College League of California) to identify fiscal strengths and liabilities to recommend strategies for the management of long -term obligations. The analysis revealed that despite increased revenues, escalating fixed expenditures are increasingly difficult to manage and, accordingly, may ultimately threaten fiscal well-being of districts. Maintaining fiscal health while maximizing services to students with available financial resources will be a continuing challenge primarily due to:

- Annual COLA maybe be insufficient to fund the annual cost increases associated with step and column, health benefits, and the escalating retirement system rates
- Projected expenditure increases (ex. minimum wage, technology enhancements, etc)
- Economic forecasts and new funding formula volatility

Also, the KCCD Board 15% District Reserve Policy (3A1A6-revised March 2014) and the CCCC minimum fund balance (reserve) requirement were discussed. The Governor's January budget proposal assumes continued economic expansion, yet the Governor continues to stress that fiscal restraint has never been more important. By the end of 2018-19, the expansion will have matched the longest since World War II. To buffer the state against uncertainty and future budget

cuts, the Governor proposes to fund the Rainy Day Fund in 2018-19 at 100% of its constitutional target (10% of expenditures), bringing total state reserves to approximately \$15.7 billion. According to the Governor, even a mild recession could result in lost revenue of \$20 billion annually, and recovery takes years.

RECOMMENDATION

The District Budget Committee's fiscal analysis reveals the following needs with respect to the annual District-wide budget development premises and campus stakeholders.

- Improve clarity of model components
- Promote transparency of the KCCD budgeting process and fiscal matters
- Foster an environment of understanding by communicating linkage between FTES generation and allocations

Also, the District Budget Committee recommends that the District establish a formal framework and process for analyzing the long term fiscal health of the District. This analysis should take into account potential financial risks, legislative mandates, and educational program needs in the foreseeable future. Also, the review should be applied within the context of long-term forecasting, thereby avoiding placing too much emphasis upon any one time. In establishing the framework, a variety of factors should be considered, including:

1. The predictability of revenues and the diversification of revenue
2. The perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts), volatility of expenditures, and potential drain upon general fund resources from other funds
3. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
4. Cash flow requirements and the relationship between budgeted reserves and actual cash on hand;
5. Regulatory commitments and assignments;
6. Benchmarking with the other California community colleges.

Appropriate Reserve Level

After completing the long term fiscal health analysis, the policy governing the general fund unrestricted fund balance (reserve) should be reviewed. The Government Finance Officers Association (GFOA) and Fiscal Crisis & Management Assistance Team (FCMAT) recommend, the adequacy of general fund unrestricted fund balance take into account each institution's own unique circumstances. At a minimum, the California Community College Chancellor's Office (CCCCO) recommends a 3% -5% fund balance. Other best practices and regardless of size, the maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

However, district's circumstances often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level.

The District Budget Committee recommends the established framework should provide broad guidance on the increase or decrease the reserve level over a specific time period based on industry best practices. A prudent reserve affords KCCD time to thoughtfully identify and implement budget adjustments over time. Inadequate reserves force districts to react quickly, often causing significant disruption, sometimes unnecessarily, to student programs and employees.

An extensive review of the historical usage of the District reserves is being conducted. However, during the most recent recession reserves were used to fund:

- Unfunded liabilities
- Pay COP debt obligations
- Backfill for reductions in various categorical allocations
- Operational Cashflow

It is recommended that District establish an unrestricted reserve minimum of 15% and maximum of 20%. These reserves will be established as unrestricted reserves for obligations and contingencies. However, the Board will retain the ability to make adjustments to the District reserve threshold to address potential financial risks in the foreseeable future. Additionally, it should be determined how resources will be directed to replenish fund balance should the balance fall below the level prescribed. Also, a process should be established for circumstances when the amount of the District unrestricted fund balance is greater than the board reserve maximum level.

~~A minimum District-wide unrestricted reserve of 15% and a cap of 18% is recommended.~~ College budgeted reserves will not be considered as part of District-wide reserves. Each of the colleges shall continue to maintain a minimum reserve of three percent (3%). ~~These reserves will be established as unrestricted reserves for obligations and contingencies.~~ The college reserves shall be calculated on the same basis as the District-wide reserves and will be applied to each institution.

~~However, it should be determined how resources will be directed to replenish fund balance should the balance fall below the level prescribed. Also, a process should be established for circumstances when the amount of the general fund unrestricted fund balance is greater than the board reserve requirement even after taking into account potential financial risks in the foreseeable future.~~

Budget Allocation Model (BAM) Review

The District Budget Committee recommends the KCCD Chancellor asked the District Consultation Council to assemble a workgroup to conduct a fourth evaluation of the District-wide Unrestricted

Fund Budget Allocation Model (BAM) Taskforce after the new state funding formula is adopted. This BAM Committee should be a subcommittee of the District-wide Budget Committee and include subject area and stakeholder groups (ex. human resources, CCA, etc).

DRAFT

**Kern Community College
District Board Policy**
Chapter 3 – Business Services

3A Fiscal

3A1 Budget Development

3A1A 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 schedule for presentation and review of budget proposals shall comply with state law and regulations, and provide adequate time for Board study. See [Procedure 3A1](#) of this Manual for Budget Preparation Guidelines.

The budget development shall meet the following criteria:

3A1A1 The annual budget shall support the District-wide master and educational plans.

3A1A2 Budget projections shall address long-term goals and commitments.

3A1A3 The annual Budget shall not exceed estimated revenues for the Budget year excluding District-wide or College reserves.

3A1A4 The Budget may include a separate request to use District-wide reserves.

3A1A5 Assumptions upon which the budget is based are presented to Board for review.

3A1A6 A schedule is provided to the Board by December of each year that includes dates for presentation of the tentative budget, required public hearing(s), Board study session(s), and approval of the final budget. At the public hearings, interested persons may appear and address the Board regarding the proposed or any item in the proposed budget.

District-wide unrestricted general fund reserves shall be no less than fifteen percent (15%) and shall not exceed ~~eighteen~~ twenty percent (~~2018~~) of the total unrestricted district-wide expenditures

College budgeted reserves will not be considered as part of District-wide reserves. Each of the colleges shall maintain a minimum unrestricted general fund reserve of five percent (~~5~~ 53) of the total unrestricted college expenditure. These reserves will be established as unrestricted reserves for obligations and contingencies.

3A1A7 Purpose of Reserves - The District-wide unrestricted general fund reserves are intended to provide resources for cash flow management, unfunded liabilities, risk mitigation, significant emergencies, and a buffer against future budget reductions. The District may incorporate into the annual budget an appropriate level of reserves to provide resources for these purposes. Unless the District is confronted with catastrophic issues, or the Board authorizes a deviation at no time should District-wide reserves fall below the minimum levels contained in Policy 3A1A6. Reserves in excess of these needs may be used for the following purposes:

- a) Provide resources to maintain mission critical educational programs. Provide resources for the expansion, reduction, or restructuring of College/District programs and services.
- b) Provide capital funds to invest in infrastructure that will lower operational costs, improve efficiencies, improve safety/security, and/or enhance the delivery of educational and/or support services.
- c) Excess reserves to be used as directed by the Board.

3A1A8 Changes in the assumptions upon which the budget was based shall be reported to the Board in a timely manner.

3A1A9 Budget allocations of funds will be made to the Colleges and District Office and will be reviewed by the Board of Trustees and Chancellor's Cabinet. Generally, the allocations to each College and to the District Office shall be based upon the Board approved allocation model. The Chancellor or designee shall work with representatives of the College Academic Senates and other District-wide constituent groups represented on the Chancellor's staff in designing the process for development of the District budget.

3A1B College budgets are prepared under the supervision of the College President or designee. The College President or designee shall work with the College Academic Senate in designing the processes for development of the College budget.

3A1C Each of the Colleges' will establish unrestricted reserves for obligations and contingencies.

3A1D Budget Management - The budget shall be managed in accordance with Title 5 and the California Community Colleges Budget and Accounting Manual. Budget revisions shall be made only in accordance with these policies and as provided by law.

Revenues accruing to the District or Colleges in excess of amounts budgeted shall be added to the District or Colleges reserve for contingencies. They are available for appropriation only upon approval of the Board that sets forth the need according to major budget classifications in accordance with applicable law.

Board approval is required for changes between major expenditure classifications. Transfers from the reserve for contingencies to any

expenditure classification must be approved by a two-thirds vote of the members of the Board. Transfers between expenditure classifications must be approved by a majority vote of the members of the Board.

These expenditures transfers will be presented to the Board for approval in February and July of each year.

