San Luis Obispo County Community College District
LONG-TERM FISCAL PLAN
2012-2016
San Luis Obispo County Community College District Vision, Mission, and Values

Vision
Cuesta College is dedicated to accessible, high-quality education for the support and enhancement of student success, professional development, and the community we serve.

Mission
At Cuesta, students acquire the tools to be academically successful, develop critical thinking skills and expertise, and learn to appreciate the contributions of all people in a diverse society. At Cuesta, we work together with dignity and respect toward the common goal of serving our students. At Cuesta, we respond effectively to the personal, academic, and professional needs of our community.

Values
Access, Success, and Excellence
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Introduction

The San Luis Obispo County Community College Long-term Fiscal Plan 2012-2016 is an operational plan that describes an assessment of the district’s fiscal strengths and liabilities and includes strategies for the management of long-term obligations.

This operational plan is a four-year plan, but because of economic uncertainties, it is difficult to project solutions that are four years in the future. Therefore, the approach to this operational plan is to put greater emphasis on the near term, re-evaluate the operational plan each year to enhance the details of the latter years, and to eventually move to a rolling three-year fiscal plan.

A fiscal operational plan would usually include responses to other leading plans, such as the Educational Master Plan, Facilities Master Plan, and the Technology Operational Plan. However, given the prolonged financial contraction of the community college system, in this fiscal operational plan, strategies for the near term goals are more modest, with the focus on maintaining fiscal stability and protection of the district’s core services at a level that will make it possible for the district to capitalize on new opportunities when these emerge.

This fiscal operational plan is a self-assessment of the district’s fiscal strengths and liabilities. This analysis has led to the identification of strategies to address identified weaknesses as well as benchmarks that will be used to communicate progress on the identified issues.
Federal and State Economic Forecast

In the wake of the Great Recession that began in December 2007, the national economy now seems to be in a slow, steady economic expansion with encouraging signs emerging in recent months. For example, the Index of Leading Indicators for October 2011 posted the largest monthly increase since November 2010, and the U.S. unemployment rate has dropped from 9.2% in June 2010 to 8.3% in February 2012. Similarly, the Consumer Confidence Index posted its largest monthly gain in November in more than eight years, and in the same month, auto sales reached their highest level since June 2008.

With these signs of improvement, the California Department of Finance is forecasting that U.S. Gross Domestic Product will increase 1.7% in 2012 and 2.5% in 2013, still modest by historical standards. The greatest risk to the U.S. recovery continues to be the European debt crisis, with a number of nations still striving to reduce their level of deficit spending. This crisis is expected to slow growth in Europe, which will, in turn, hold back U.S. expansion.

California’s economy is tied to the national economy. California is projected to experience strong growth in some sectors, such as technology and professional services, but recovery will be slowed by the sluggish housing market. The export sector, which rose 19% from 2009 to 2010, is expected to continue to expand, but an economic slowdown in Europe or China could significantly curtail California’s growth.

The Governor’s budget forecasts personal income in California to increase 3.8% in 2012 and 4.1% in 2013, again low by historical standards for this phase of an economic recovery. The state’s employment outlook will improve in the coming years, but the unemployment rate is forecast to remain one of the highest in the nation at 11.7% in 2013.

The Governor has presented a long-term plan for higher education in his State Budget Proposal for 2012-2013, stating that the plan is “rooted in the belief that higher education should be affordable and student success can be improved.” Components of the plan include:

- A General Fund contribution to each higher education segment by a minimum of 4% per year from 2013-2014 through 2015-2016, if the Governor’s tax initiative is passed;
- Curtailment of tuition and fee increases;
- Annual General Fund augmentations contingent upon each institution’s achievement of the administration’s priorities, including improvements in specific accountability metrics such as successful credit and basic skills course completion for community colleges; and
• Shifting lease revenue bond debt services for higher education capital improvement projects into each institution’s budget to “encourage the institutions to factor these costs into their overall fiscal outlook and decision-making process.”

San Luis Obispo County Community College District’s Integrated Planning Model

The San Luis Obispo County Community College District model of integrated planning is included in this document to present an overview of how resource allocations are tied to planning. This model depicts how the components in district planning processes link to one another in a cycle of evaluation, development of goals and objectives, resource allocation, plan implementation, and re-evaluation. It is through the regular sequence of these planning practices that the district assesses institutional effectiveness and uses those assessments to continually improve the college’s services to students.

Research is central to the San Luis Obispo County Community College District model of integrated planning because plans are developed based on data, and plan outcomes are assessed using quantitative and qualitative data. With this grounding in research, the components of the district’s model of integrated planning are as follows:

• The San Luis Obispo County Community College District Mission describes the intended student population and the programs and educational services that the district provides to the community. As such, this statement is the foundation for all planning processes.

• Periodic data analysis includes the use of:
  • District data to assess its current effectiveness in meeting the San Luis Obispo County Community College District mission and
  • Community demographic data to foresee challenges and opportunities.

Based on these data, current and anticipated challenges are identified. These challenges are foundational for the development of the Educational Master Plan and the Facilities Master Plan. Through the process of developing the Educational Master Plan, the district develops Institutional Goals that are intended to focus the district in advancing the mission and meeting the identified current and anticipated challenges.
In the development of the Strategic Plan, the Institutional Goals are used to develop Institutional Objectives that describe specific initiatives that will be undertaken to achieve the Institutional Goals. The Strategic Plan informs two other types of short-term plans, the Institutional Program Planning and Reviews and the Operational Plans.

Resource allocations are determined at three levels: unit, cluster and institution. These allocations are based on the priorities established in the Strategic Plan, the Institutional Program Planning and Reviews, and the Operational Plans.

Once resources are allocated, the district implements the plans by completing the action steps identified in the Strategic Plan, the initiatives in the Operational plans and by completing the program objectives as identified in the Institutional Program Planning and Reviews.

Annual data analysis includes two types of assessment:

1. Assessments of program effectiveness measure each unit’s effectiveness in comparison to historical data as well as in comparison to the Institutional Goals and Institutional Effectiveness Outcomes. This data analysis is the foundation for the Institutional Program Planning and Review process.

2. Assessments of plan effectiveness measure the district’s progress in achieving Institutional Goals and Institutional Objectives. This data analysis is documented in an annual San Luis Obispo County Community College District progress report that informs the internal and external community about progress toward long-term goals. The annual progress reports will be compiled and used in the next ten-year master planning cycle to identify ongoing challenges.

The processes that comprise this model of integrated planning are assessed every other year. This assessment is the basis for improvements to the planning processes. A description of this assessment of planning processes and more details on all components of this integrated planning process are available in the San Luis Obispo County Community College District Integrated Planning Manual 2012.
FIGURE 1: The San Luis Obispo County Community College District Model of Integrated Planning depicts how the components in district planning processes connect to the mission and link to one another in a cycle of evaluation, development of challenges, goals and objectives, resource allocation, plan implementation, and reevaluation.
District Budget Performance
California Community Colleges have experienced reduced funding for several consecutive years, which has resulted in significant expenditure reductions and the use of fund balance to weather the lingering financial storm.

In 2008-2009, the district reached a plateau of FTES that entitled the college to an additional $1.1 million in base funding. Since the district was not far enough above the minimum level to sustain the added funding, the district added this amount to its contingency account rather than budget the additional funding. This, along with other fiscally prudent actions, resulted in the district’s ending balance improving at a time when that would not be anticipated.

The following list recaps the results of the last 4 years for the unrestricted general fund:

<table>
<thead>
<tr>
<th>Ending balance 07/08</th>
<th>$3,742,555</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ending balance 08/09</td>
<td>$4,773,189</td>
</tr>
<tr>
<td>Ending balance 09/10</td>
<td>$5,249,882</td>
</tr>
<tr>
<td>Ending balance 10/11</td>
<td>$7,337,681</td>
</tr>
<tr>
<td>Ending balance 11/12 (est.)</td>
<td>$4,100,000</td>
</tr>
</tbody>
</table>

The ending balance includes a 6% general reserve designated by the district’s Board of Trustees. The remainder of this ending balance is used as a contingency reserve.

During the 2011-2012 fiscal year, the recent positive trend stopped due to mid-year reductions in state allocations, as well as unexpected shortfalls in property taxes and student fees. The district’s prudent actions in previous years provided the resources needed to absorb this unusually large and unexpected reduction. The strength of the district’s fund balance is an important financial tool to manage the erratic impact of state actions and allowed budget planning to occur over a two- to three-year period. It is expected that the 2012-2013 fund balance will include the board required reserve of 6% plus a balance in the contingency fund of $1 million to $2.2 million, depending on the outcome of the November 2012 Tax Incentive.

The district’s projections predict a $2,929,121 deficit for 2012-2013. Therefore, the Planning and Budget Committee made a recommendation to the Superintendent/President to target $3,000,000 in cuts for the 2012-2013 Budget Reduction Plan. The Superintendent/President presented a $3,000,000 Budget Reduction Plan to the Board of Trustees on April 4, 2012, which was approved. This action, along with again reaching medium-size college status, a successful tax incentive election in November, and no further state cuts to our budget, will result in little or no deficits through 2015-2016. The governor’s proposed budget does have 4% increases in

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8
revenues to backfill earlier reductions starting in 2012-2013 which should mitigate future deficits.

**Budget performance issue:** Although the disparity between adopted budgets and actual budgets is positive, the actual budget performance needs to be more clearly understood, communicated, and reflected in future budgets.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted outcome</td>
<td>($361,692)</td>
<td>($151,983)</td>
<td>534,735</td>
</tr>
<tr>
<td>Actual results</td>
<td>$807,790</td>
<td>$ 476,693</td>
<td>$2,087,799</td>
</tr>
<tr>
<td>Beginning Fund Balance</td>
<td>$3,742,555</td>
<td>$4,550,345</td>
<td>$5,249,882</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>$4,550,345</td>
<td>$5,249,882</td>
<td>$7,337,681</td>
</tr>
</tbody>
</table>

**Conclusion:**
The district has a reasonable fund balance and the underlying foundation is solid.

**Strategy to address budget performance issues:**

1. To ensure that actual budgets are more closely aligned with the expected outcomes, district staff will use a budget performance modeling tool to conduct an analysis of the relationships between the actual and projected budgets. This will allow early detection of budget variances.

2. After the second and third quarters, district staff will systematically provide comparisons of the current actual budget with the adopted budgets to all district constituencies.

**Benchmarks:**
- Reduction in the disparity between actual and adopted budgets
- Increased communication on budget performance to all district constituencies
Budget Development

The current budget development process begins with the development of budget assumptions. The budget assumptions are central to the budget development process and guide the allocation of resources. In April, budget assumptions are developed for the next fiscal year. The Planning and Budget Committee approves budget assumptions in May to be used to develop the budget for the next fiscal year.

Information from a variety of sources is considered in the development of the budget including:

- Institutional Goals and Institutional Objectives;
- Priorities identified through the Institutional Program Planning and Review process;
- Mandates from external agencies; and
- Status of long-term obligations.

In addition to this information, during the past three years of reductions in state apportionment, the district’s resource allocation process has also included consideration of the following guiding principles:

- Protect as much as possible of the core curriculum, programs and services needed to fulfill the district and state mission for community colleges;
- Maintain student access and service throughout the district;
- Reduce, combine, suspend, or eliminate services, programs, positions, and other costs farthest from students, instruction, and the support needed for student success;
- Stay flexible, plan for contingencies, and recognize that decisions at the state level may not be made in a timely manner, making it more important than ever for the district to work as a unified unit; and
- Communicate with civility; gather facts, weigh options, listen, and deliberate together when difficult choice have to be made.

Units identify and prioritize needs for staffing, facilities, services, and equipment. These unit-level requests for resources are submitted on the Annual Program Planning Worksheet as part of the Institutional Program Planning and Review process. High-priority needs will be funded at the unit level if possible. The Annual Program Planning Worksheets are combined at the cluster level and are once again prioritized. High-priority needs will be funded at the cluster level if possible. All clusters submit their list of prioritized needs to the Planning and Budget Committee.
To prioritize the institutional priorities, the Planning and Budget Committee uses the Resource Allocation Rubric. Using a 45-point scale, this rubric weighs each request based on the following criteria:

1. The contribution this proposal will make toward the achievement of Institutional Goals and/or Institutional Objectives;
2. An outcome based on the measurement of student learning outcomes or administrative services outcomes;
3. Data in the Institutional Program Planning and Review;
4. List of recommended priorities from each cluster; and
5. Health or safety concerns;

This rubric establishes institutional priorities during the spring semester. After the fiscal year is closed out, the Planning and Budget Committee may recommend that unencumbered funds be used to fund the prioritized list, or recommend that the unencumbered funds be saved for contingencies.

In order to minimize large General Fund requests, and plan for future needs, budget managers may request that unencumbered funds from their budgets be carried over into the next year’s budget. This requires approval from the Planning and Budget Committee. In determining whether to honor the carry-over request, the Planning and Budget Committee considers the manager’s justification and linkage to a Unit Plan, Cluster Plan, the Educational Master Plan, and the district’s Mission.

The district provides direct links between resource allocations and planning in the following ways:

- The Institutional Program Planning and Review process includes the requirement that units address how they contribute to the achievement of Institutional Goals and/or Institutional Objectives.
- Requests for funding are prioritized by the Planning and Budget Committee using a rubric that gives the highest scores to proposals that will contribute to the achievement of the Institutional Goals and/or Institutional Objectives and that are the result of student learning outcome measurements.
- The district has established an Institutional Objectives Fund. These funds will be distributed through a mini-grant process and allocations will be based on the extent to which the funding will contribute to the achievement of an Institutional Objective.

The budget development process is assessed annually by the Planning and Budget Committee and recommended changes are incorporated into future budget development processes.
**Budget Development Issue:**
District staff currently does not provide analysis and clarification on how the actual annual budget performance differs from the adopted budget plan. This information would be useful to determine whether changes in budget baselines are warranted.

Given the current economic environment, the district will need to identify new funding sources or shift resources in order to fund new requests.

While the district has funded requests in support of the Technology Plan and Strategic Plan, there currently is no established budgetary line item to support these plans. A line item must be established in the annual budget. It should be noted that there currently is a line item established in support of the Facilities Plan.

**Conclusion:**
The budget is developed via analysis of previous budget’s variances between actual and budgeted accounts, sound budget assumptions, and Unit, Cluster, and Institutional needs to fulfill the district’s Mission, Goals, and Objectives.

**Strategy to address budget development issues:**

1. The budget development process will begin with an analysis of variances between the actual and budgeted accounts from the preceding two years. The variances will be presented to the Planning and Budget Committee with an explanation indicating whether the differences are due to one-time or ongoing events. The Planning and Budget Committee may recommend changes to the budget based upon this information.

2. The office of the Vice President of Administrative Services has identified outside sources of revenue. Currently identified outside sources of revenue are listed in Appendix A. The Vice President of Administrative Services will present this information with a feasibility study to the Superintendent/President for action.

3. The district will establish two budgetary line items; one that specifically supports the Technology Plan and one that specifically supports the Strategic Plan.
Benchmarks:
- Reduction in the disparity between actual and adopted budgets
- Increased communication on budget performance to all district constituencies
- Line items established for operational plans
- Line item established in support of the Strategic Plan

Long-Term Obligations
The district currently has the following long-term obligations:

Banked Compensated Absences (vacations and comp-time):
The district budgets $90,000 annually to cover compensated absences such as vacation and comp time. In addition, the San Luis Obispo County Community College District carefully monitors the accrual of both vacation and comp time to further limit its financial exposure. Annually, in August, the district pays out any vacation time beyond the two-year bank or comp-time.

Certificates of Participation (COPS):
The district has planned for and is making its COPs payments. It is a line item in the budget like many other expenditure categories and after the 2012-2013 year will not add to the operating costs of the district. The annual payment will decrease by 17% beginning in the 2018-2019 Fiscal Year resulting in an opportunity to reallocate funds to other areas. A detail of the COPs obligation is contained in Appendix B.

Other Post Employment Benefits OPEB (medical):
The district’s Other Post Employment Benefit obligations are valued at just under $47,000 which includes a retired president who is provided medical insurance by the district. The district also allows retirees to participate in the district’s medical plan by paying the full premium amount.

Load Banking:
Prior to the 2008-2009 fiscal year, the district expensed load banking as it was earned. The district discontinued this practice on the recommendation of the auditors. Currently, the load banking obligation is not budgeted in the year in which it was accrued. The Load Banking Obligation averages approximately $120,000 annually.

Salary Schedule (Step and Colum):
The effect of the salary schedule on the General Fund is dependent on several factors, including years of service, reclassifications and professional development credit. Since this obligation is a contractual right, the district annually estimates and budgets for this item.
**Separation Incentive Program (SIP):**
During the 2010-2011 fiscal year, the district and the Cuesta College Federation of Teachers agreed to a Separation Incentive Program. The district’s obligation is $205,000 per year through the 2014-2015 fiscal year. The cost of this program is offset by a savings of approximately $203,152 in 2010-2011 and approximately $321,900 per year in the subsequent four years unless positions are replaced.

**Conclusion:**
With the exception of load banking, the district has developed a solid plan to handle its long-term obligations.

**Strategy to address long-term obligation issue:**
1. District staff will develop and implement processes to record banked load as an expense when the time is earned in order to ensure that this long-term obligation is accounted for in the district budget.

**Benchmarks:**
- Banked load will be accounted for during the budget year from which it was earned.

**Pending Capital Needs:**
Future capital needs include scheduled maintenance, upgrade of network infrastructure, building and program modernizing, distance education infrastructure and a South County facility.

**Conclusion:**
The district has developed specific plans to identify pending capital needs with its Facilities and Technology plans. Given the economic forecast for the next four years, funding for such projects will not readily exist.

**Strategies to address pending capital needs:**
1. Loans, i.e., COPS
2. Implement a savings program through the budgeting process for anticipated needs.
3. Capital Fund Campaign
4. Successful Bond Campaign

**Benchmarks:**
- Funding secured for prioritized capital needs.
Afterword:
The district’s accounting practices have been rated by auditors as “presented fairly, in all respects, the financial position of the San Luis Obispo County Community College District and its discretely present component unit…, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.” The district has only received “unqualified” audits in all of its years and has had “no adjustments to the Annual Financial and Budget Report (CCFS-311), which required reconciliation to the audited financial statements” for the past four years.

In addition to State audits, during the spring of 2012, the district retained the College Brain Trust (CBT) as an independent consultant to assess its financial planning and stability. The College Brain Trust consultant, Michael Hill, concluded that the “underlying foundation” of the district’s fiscal operation “is solid”, that the long-term obligations have been budgeted and will not continue to increase unlike the long-term obligations of many other community colleges, and that the district “moved quickly and aggressively to make budget adjustments” in light of proposed cuts from the State. This long-term fiscal plan draws from this report and a complete copy of Michael Hill’s report is included in Appendix C.
Appendix A:

Securing Additional Revenue Sources

The state budget in recent years has resulted in reductions of state funding for the district. Though it is expected that the state will experience slow growth, the California Department of Finance is projecting deficit budgets through at least 2015-2016. Therefore, it is prudent that the district aggressively pursue additional revenues to alleviate the district’s dependence on state revenues.

Increase Foundation support:

During the last three years, the Cuesta College Foundation has granted and gifted more than $1,360,000 for programs and services that are critical for supporting student success. During the same period, an additional $1,222,000 was awarded in scholarships to students and $594,600 was provided to college departments to assist with their greatest needs and equipment upgrades. Below is a summary of the diverse range of gifts, grants and expenditures funded by generous support from donors.

<table>
<thead>
<tr>
<th>SUPPORT PROVIDED TO:</th>
<th>2008-2009</th>
<th>2009-2010</th>
<th>2010-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Instructional Programs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes career technology, nursing, automotive,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>hospitality, performing arts, welding, athletics,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>math and the sciences, Child Development Centers,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>social sciences, and business education and more.</td>
<td>$570,900</td>
<td>$333,900</td>
<td>$341,000</td>
</tr>
<tr>
<td><strong>Student Programs and Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes student registration support, counseling,</td>
<td>$31,100</td>
<td>$35,000</td>
<td>$48,100</td>
</tr>
<tr>
<td>Financial Aid, EOPS, DSPS, and ESL.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Student Scholarships</strong></td>
<td>$436,900</td>
<td>$395,500</td>
<td>$389,400</td>
</tr>
<tr>
<td>Includes endowed, annual and named scholarships.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Capital Projects</strong></td>
<td>$306,600</td>
<td>$214,200</td>
<td>$73,800</td>
</tr>
<tr>
<td>Includes funding support for the theater arts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>building, science forums, and the humanities forum.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Annual Foundation Grants to Departments</strong></td>
<td>$252,600</td>
<td>$184,400</td>
<td>$185,946</td>
</tr>
<tr>
<td>Includes classroom and lab equipment upgrades and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>replacement, supplies for curriculum, technology</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>support and development, and staff training.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Gifts to the College</strong></td>
<td>$23,800</td>
<td>$210,800</td>
<td>$74,100</td>
</tr>
<tr>
<td>Includes funding to the college’s strategic plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>development.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET BENEFIT TO THE COLLEGE AND STUDENTS</strong></td>
<td>$1,621,900</td>
<td>$1,373,800</td>
<td>$1,112,346</td>
</tr>
</tbody>
</table>
**Secure a bond or a parcel tax:**
A bond is an investment security (encumbrance) sold by the district through a financial form for the purpose of raising funds for various capital expenditures. It is a written promise to pay through property taxes a specified sum of money, called the face value, at a specified date or dates in the future, called the maturity date(s). A bond is a tool for raising large sums of monies that can be used for future capital needs, pay off debt and other infrastructure needs. Given the district’s pending capital needs and debt obligations, a successful bond campaign would be an excellent solution, if feasible. In addition to the outstanding COPs of $19.1 million, the district estimates that $78 million in scheduled maintenance costs in the Facilities Plan have accrued for existing structures. The Technology Plan also reflects capital needs for upgrading the network infrastructure.

**Grants:**
Grants are contributions or gifts of cash or other assets from a government or private organization to be used for a specific purpose, activity or facility. The grants program has an annual budget of $25,000 for consultants.

**Surcharge on use of facilities:**
The district’s current long-term debt (COPs) was incurred to finance scheduled maintenance and capital outlay projects. Therefore, it would be appropriate to include a surcharge on the facilities use rates by outside users. The surcharge would then be used to help make the COPs payments, reducing the amount paid by the General Fund.

**Leasing or sale of assets:**
The district currently owns unused land. There is 75 acres across the street from the San Luis Obispo campus as well as two parcels across the street from the North County Campus. Leasing or selling these unused parcels would generate revenue for the district.

**Student Fees:**
The district currently charges a convenience fee of $2.00 per credit card transaction to partially alleviate the cost of accepting credit cards. Another fee to explore is an optional Technology Fee that would be used to support the update of technology used by students.

**Maximize profitability of Revenue Generating, Auxiliary, and Enterprise Programs:**
The district has several revenue generating programs. These programs need to be evaluated to ensure that they are covering program costs and making a profit where appropriate.

**Secure Funding for Future Capital Needs (Technology Plan / Facility Plan):**
Future capital needs include scheduled maintenance, upgrade of network infrastructure, and a South County facility as outlined in the Facilities Plan and the Technology Plan. Viable funding options need to be explored for these pending needs.
Appendix B:

Payment schedule for the Certificates of Participation (COPS)

<table>
<thead>
<tr>
<th>Year</th>
<th>2003 COPS</th>
<th>2006 COPS</th>
<th>2009 COPS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>2011-12</td>
<td>220,000</td>
<td>67,193</td>
<td>295,000</td>
<td>566,309</td>
</tr>
<tr>
<td>2012-13</td>
<td>230,000</td>
<td>60,328</td>
<td>305,000</td>
<td>554,509</td>
</tr>
<tr>
<td>2013-14</td>
<td>235,000</td>
<td>52,944</td>
<td>320,000</td>
<td>542,309</td>
</tr>
<tr>
<td>2014-15</td>
<td>240,000</td>
<td>45,105</td>
<td>330,000</td>
<td>529,189</td>
</tr>
<tr>
<td>2015-16</td>
<td>255,000</td>
<td>36,623</td>
<td>345,000</td>
<td>515,576</td>
</tr>
<tr>
<td>2016-17</td>
<td>260,000</td>
<td>27,480</td>
<td>360,000</td>
<td>500,914</td>
</tr>
<tr>
<td>2017-18*</td>
<td>267,500</td>
<td>11,400</td>
<td>375,000</td>
<td>485,434</td>
</tr>
<tr>
<td>2018-19</td>
<td>390,000</td>
<td>468,934</td>
<td>160,000</td>
<td>340,525</td>
</tr>
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<td>29,081</td>
<td>495,000</td>
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Appendix C:

Dr. Gilbert Stork                                      April 6, 2012
Superintendent/President                              
San Luis Obispo County Community College District (SLOCCCD)  
P. O. Box 8106                                         
San Luis Obispo, CA 93403                             

Dear President Stork:

The district has retained CBT to assist in developing a response to the Accrediting Commission’s show cause letter dated February 1, 2012. In the letter the Commission expresses concern regarding the district’s financial stability. Further the letter refers to earlier comments from the accreditation team report regarding Recommendation 7: Financial Planning and Stability. There was a specific concern noted by the accreditation team on the issue of long term debt in the form of COPs. The purpose of this letter is to summarize my evaluation of the district’s financial status and comment upon the fiscal plan under development by the district.

To accomplish this task I communicated with Vice President Sommer who then sent to me draft plan documents, 10/11 and 11/12 budget documents, pages from the state CCFS 311 financial reports and audits from the last several years. After review of the documents and development of follow up questions I spent a day on site first meeting first with VP Sommer and Chris Green. Later I met with co-chairs of the planning and budget committee and finally with a larger group of members on the accreditation steering committee. Also in attendance was Deborah Wulff, the Accreditation Liaison Officer. In each of the meetings I gained a greater understanding of local district concerns. The sessions were casual, very interactive with lots of discussion and brainstorming. Having completed that process and subsequent re-examination of the documentation, I have provided in this report my assessment of the district’s financial condition. It should be noted that I did not audit any records and worked with the numbers from district produced documents. The focus of my efforts was on the unrestricted general fund and as such I did not examine foundation records or capital projects plans.

Summary of Analysis and Findings

Statement from accreditation team report:

Recommendation 7 - Financial Planning and Stability

To meet standards, the team recommends that the college review and assess its long range financial and capital planning strategies to ensure sufficient funding levels for ongoing operations. The team also recommends that the college and the college foundation review and communicate the fiscal status of investments and implement appropriate protections to secure fiscal solvency.

In evaluating the district’s financial condition as it relates to Recommendation 7 I did so with the intent of being able to either affirm or deny the college’s progress toward compliance with the recommendation. My findings and conclusions are organized by topic areas.
**Fiscal Plan**

The district has committed to preparing a five year fiscal plan. This plan has already gone through several drafts but as of yet the college team is not satisfied with the outcome. This speaks to their sincerity and desire to produce a plan that has merit and value. In discussions with your staff, we talked about key elements of the plan. Because of the volatility and economic uncertainty of the times, the out years of a five year plan are extremely hard to address in detail. The approach to the plan is to put greater emphasis on the near term, re-evaluate the plan each year to enhance the details of years four and five and eventually move to a rolling three year fiscal plan.

A fiscal plan is normally in response to other leading plans such as the education master plan, facilities and technology plans. Again due to the prolonged financial contraction of the community college system these plans have been tempered with the near term goals being more modest. For now the main focus of the fiscal planning has more to do with maintaining a level of fiscal stability and protection of the district’s core services at a level which when new opportunities begin to emerge will position the district to capitalize upon them. It is a very practical and reasonable strategy given the present environment.

Within the plan specific issues both long term and operational are identified including actions to address them. Further the plan outlines a means for benchmarking and communicating progress toward resolution. It includes self assessment and acknowledges increasing cost pressures created by existing local decisions such as step/column salary changes and health benefit costs. It is important to incorporate these into the planning in that they have an impact even when the district does nothing. These increased costs are made more relevant when revenues are being eroded. Under more typical circumstances when the district is receiving growth and COLA funds from the state the impact of “normal costs of doing business” are less of an issue. The plan also incorporates discussion of revenue potential, categorical program support and FTES strategies.

The plan elements appear to be appropriate and thoughtfully developed.

**Resource Allocation**

The district is also in the process of evaluating how resources are allocated internally. The old process was a “bottom-up” approach whereas now the process will be “top-down”. That means starting with the strategic planning priorities of the district, including impact on student learning outcomes and determining how funding requests support those priorities. The planning and budget committee is working on a revised allocation request rating matrix, a handbook for the work of the committee and clear directions on how funding decisions will be submitted, evaluated, processed and funded. The district is drafting an Integrated Planning Manual which provides more detail on this topic.

**Budget Performance and Fund Balance**

California community colleges have been facing reduced funding for several years now. This has led to significant expenditure reductions and the use of fund balance to weather the lingering financial storm. The San Luis Obispo County Community College District like others has had to respond to this circumstance. In the 2008/09 year the college reached a plateau of FTES that entitled the college to an additional $1.1 million in base funding. Since the district was not far above the minimum level to sustain the added funding it decided to not budget the additional funding for planned expenditures but add it to the district contingency account. This along with other fiscally prudent actions resulted in the district’s ending balance improving at a time when that would not be anticipated. The following list recaps the results of the last 4 years for the unrestricted general fund:
Ending balance 07/08 $3,742,555
Ending balance 08/09 $4,773,189
Ending balance 09/10 $5,249,882
Ending balance 10/11 $7,337,681
Ending balance 11/12 (est.) $4,100,000

It should be noted that the ending balance includes a 6% general reserve designated by the governing board and the balance is used as a contingency reserve.

As you can see the 11/12 year is expected to reverse the recent positive trend. The 11/12 state budget included reduction triggers which hit mid-year as well as unexpected shortfalls in property taxes and student fees. It was the prudent actions of the college in the previous years that has provided the resources to take this unusually large hit without going into crisis mode. The strength of the district’s fund balance served as an important financial tool to manage the erratic impact of state actions and allowed budget planning to occur over a two to three year period avoiding knee jerk reactions.

There is however, one aspect of budget performance which the district should take steps to explain clearly so that the college community understands how contingency funds are being managed. In looking at the budgets adopted in recent years and the actual results for each, the actual performance while favorable needs to be understood, communicated and reflected in future budgets. To illustrate this point if we look at the last 3 completed fiscal years we see the following:

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<th>08/09</th>
<th>09/10</th>
<th>10/11</th>
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<tr>
<td>Budgeted outcome (deficits)</td>
<td>$(361,692)</td>
<td>$(1,359,165)</td>
<td>$(2,027,188)</td>
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<tr>
<td>Back out contingency budgets included</td>
<td>0</td>
<td>$1,207,182</td>
<td>$2,561,923</td>
</tr>
<tr>
<td>True budgeted outcome</td>
<td>$(361,692)</td>
<td>$(151,983)</td>
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<tr>
<td>Actual Results</td>
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<td>$476,693</td>
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<td>Beginning Fund Bal</td>
<td>$3,742,555</td>
<td>$4,550,345</td>
<td>$5,249,882</td>
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<tr>
<td>Ending Fund Bal</td>
<td>$4,550,345</td>
<td>$5,249,882</td>
<td>$7,337,681</td>
</tr>
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</table>

district staff should provide analysis and clarification on how the actual budget performance differs from the adopted budget plan and determine if changes in the budget are warranted or if the differences are due to one-time events and make sure this information is shared with the broader college community. Further during the current year early detection of budget variances is important. A budget performance modeling tool as been shared with district business staff that will help accomplish this goal. It will be in the district’s interest to see budgets that are more closely aligned to the expected outcomes.

Recent external audits indicated unqualified opinions with no material weaknesses noted in the fiscal operations of the district. This is a positive affirmation of district business practices.
**Budget Development**

The district has modeled the two most likely scenarios for the 12/13 fiscal year based on information from CCLC and the State Chancellor’s Office. As a result the district has made a determination to reduce its spending by $3 million for the 12/13 year. As of this writing the district has already identified specific ongoing reductions totaling $2.5 million. There is some discussion as to whether or not the remaining $500,000 could be soft reductions, meaning they could be easily restored if circumstances warranted. That the district has moved quickly and aggressively to make the budget adjustments again indicates prudence on the part of the district. Included in the district’s analysis of the 12/13 fiscal year is the impact of the two scenarios reflecting the $3 million in reductions and the resulting ending fund balance. Also identified is the true operating results (real income less expenses) for 13/14. There is a variable of $1.1 million mentioned earlier related to the mid-size college basic allocation. If the district is able to sustain the necessary FTES level to retain that funding increase then under the worst case scenario going into 13/14 the base budget would be close to being in balance. Under the better case scenario the budget would have a bit of breathing room depending on how the $1.1 million is utilized. This is before factoring in increased costs of operations for 13/14. The overall fund balance would still maintain the board designated 6% reserve and the contingency reserve would be anywhere from $0 to $1 million.

In this environment, after 4 years of declining resources, the San Luis Obispo County Community College District at the close of the 12/13 year will be in pretty decent shape. Its ongoing budget will be near balanced and the district will still retain a respectable fund balance. This is not to suggest that the district achieved this easily. It required hard decisions, sacrifices and impacted the lives of employees and students.

**COPs and Compensated Absences**

A great deal of emphasis has been placed on the long term debt created by the sale of COPs in earlier years. The schedule of annual payments is due to increase in 12/13, level off at that point and then decline by 17% starting in 18/19. The COPs will decline significantly in 35/36 and be paid off in 39/40.

While it would be desirable to not be encumbered with this debt, that is not presently possible. The added payment has been incorporated into the budget planning and included in the discussions above regarding budget and fund balance impacts. The budget planning by the district has accounted for the COPs payments and taken the necessary steps to adjust its budget.

In looking at the commission’s concern regarding the long term debt I discussed with staff other areas of compensation which often create unrecorded or long term expenses. These include retirement health benefits, vacation, comp time and banked load. Many districts do not have COPs debt but do have large obligations regarding these other cost categories. Districts with retiree health benefit costs are facing enormous challenges due to the growth in the retiree ranks and the ever increasing premiums. They are having to pay annual costs for current retirees and are expected to be setting aside funds toward the cost of future retirees. SLOCCCD has a very small retiree health obligation valued at just under $100,000. Most districts are looking at retiree obligations of many millions of dollars.

To place the concern regarding the district’s COPs payments in a financial context it is necessary to contrast it to the other long term debt issues of other districts. The COPs are predictable, stable and will not increase beyond the level anticipated for 12/13. The costs will in fact drop slightly in six years. This is in stark contrast to the path retiree health costs are on. Further when the timing is right the district may be able to retire its COPs via a successful bond election. No such opportunity exists regarding retiree costs. If I had to choose between having SLOCCCD’s obligation on COPs versus one for retirees health benefits the COPs is the easy choice.
The district has planned for and is making its COPs payments. It is a line item in the budget like many other expenditure categories and after the 12/13 year will not add to the operating costs of the district.

SLOCCCD up until the close of the 08/09 year expensed banked load as it was earned. This was a sound business practice. It was upon the recommendation of the external auditors that the district discontinued this practice. Now banked load is expensed when paid against the hourly instructional budget. While the district does not expense compensated leaves, it does budget $90,000 annually to cover compensated absences such as vacation and comp time. Many districts make only memorandum entries for such absences, establish no annual budget line for payments and treat them as ad hoc costs when paid out. In addition to these actions, SLOCCCD has worked to limit the accrual of both vacation and comp time to further limit its financial exposure. The steps taken by SLOCCCD in regard to these costs are helpful. It would be in the district’s financial interest to at some point record as expense banked load when earned to ensure that this obligation remains manageable.

**Conclusion**

I have been very fortunate to have had the opportunity to work with a number of California community college districts looking at many of the same issues facing the San Luis Obispo County Community College District. The district is smaller than most of those with which I have worked but in terms of the relative scale, the issues facing SLOCCCD appear to me to be more manageable and less onerous. The district has a reasonable fund balance, a solid plan to bring expenditures in line with available revenues and defined, limited, long term debt with which to contend. The fiscal operation can be made stronger and budget materials can be presented more clearly, but the underlying foundation appears to be solid.

Thank you for this opportunity to work with the San Luis Obispo County Community College District. I appreciate very much the participation, candor and openness of the staff with which I worked.

Sincerely,

Michael Hill
Consultant, College Brain Trust