



The Board's Role in Fiscal Policy

AKA Trustee's Financial Responsibilities

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Board's Role in Fiscal Policy

AGENDA

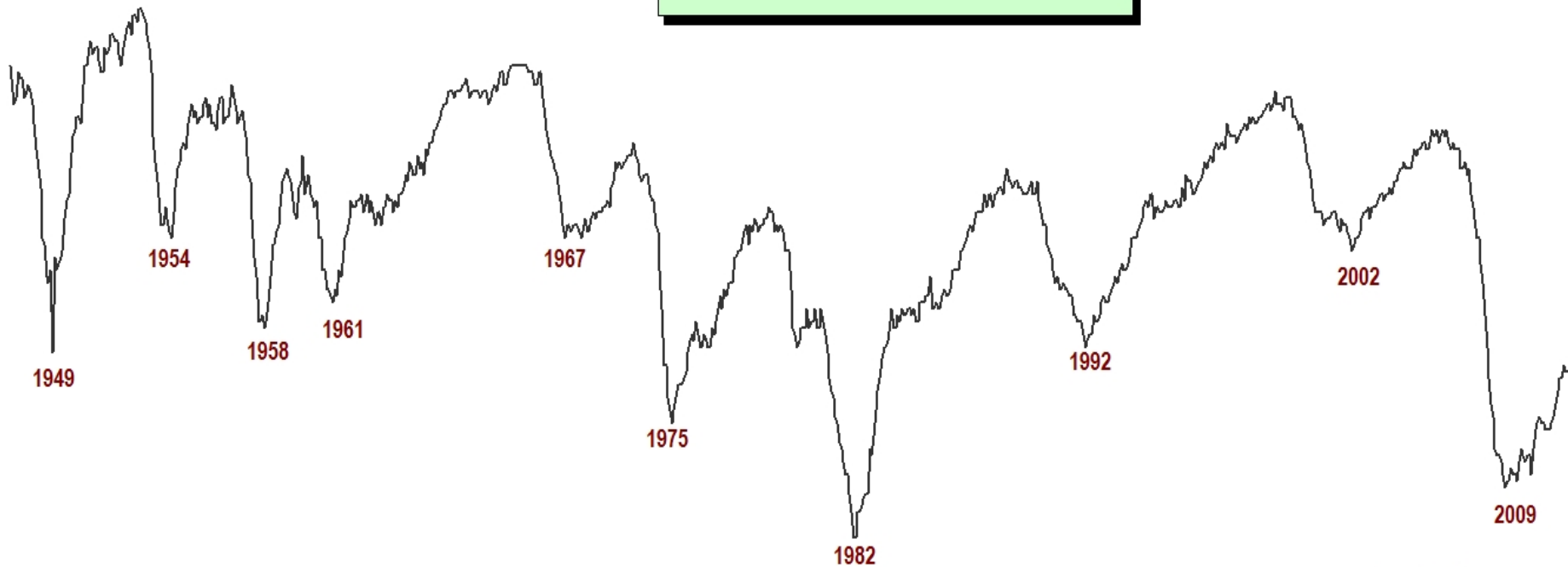
- Governing Board Level Control
- Developing Policies (Criteria)
- The Annual Budget (Reserves)
- Periodic Reports (Trends and Tools)
- Audit (Trustee Role)
- Other Fiduciary Issues
- Big Tip



Governing Board Level Control

U.S. Economy: 1948 - Present

(Source: U.S. Government statistics)



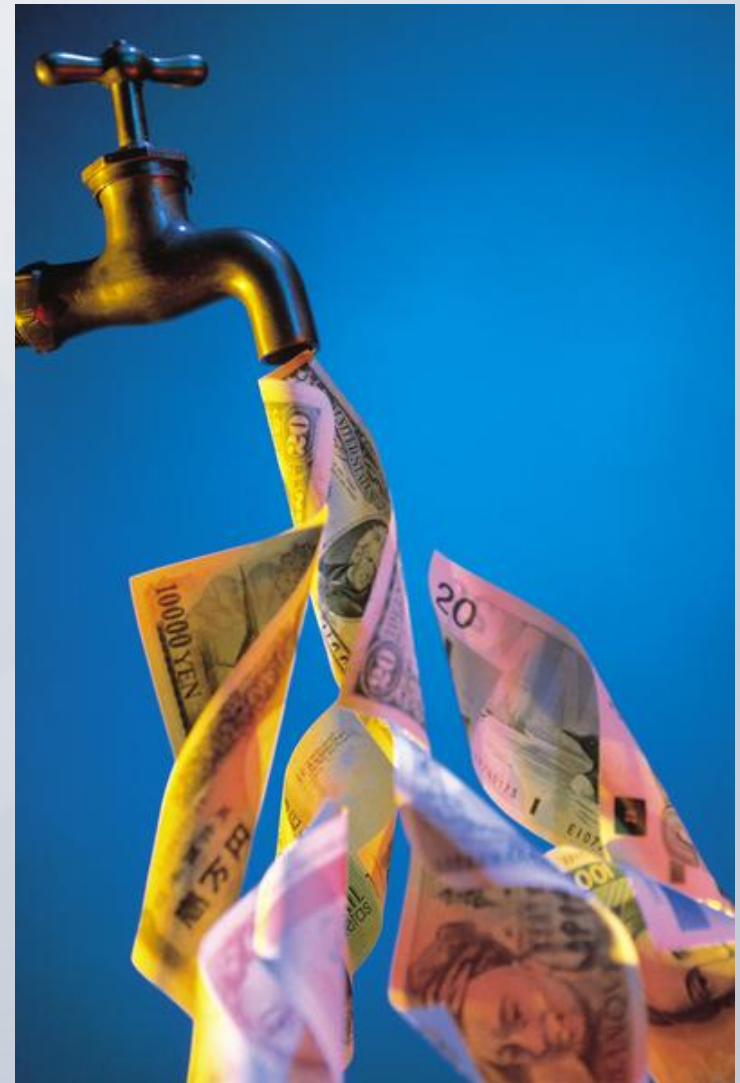
Governing Board Level Control

- Information
 - The Annual Budget
 - Periodic Reports*
 - The Audit Report
- Decisions
 - Based on information provided (and requested)
- Direction
 - Based on plans developed and approved
- Policies
 - To guide the district's processes and actions
 - * *more than just financial reports*



Developing (Fiscal) Policies

- Trustee's are Responsible for District's Fiscal Solvency
- Set Policies/Criteria for:
 - Budget Development
 - Reserve Levels
 - Funding Long-term Liabilities
 - Investments
 - Financial Reporting
 - Enrollment...
 - Collective Bargaining
 - Facilities, Bonds, Debt



Benchmarks, Trends & Key Fiscal Indicators

- Financial Condition of District, Deficit Spending
- Compliance with Fiscal Policies
- Compliance with Laws and Regulations
- Specific Funds are Used for a Specific Purpose
- Ending Balance and Reserve Levels
- Early Warning Signs of Problems (Tools, Checklists)
- Audit Findings
- Accreditation Status
- Status of Enrollment, metrics
- Actions to Adjust Budget





The Annual Budget



The Annual Budget

- The culmination of planning that guides the institution
- Built on reasonable assumptions and aligned with plans
- Establishes budgetary limits & must be balanced
- Process & details must be transparent/inclusive
- Must comply with state law and system regulations
- For Multi-college Districts – “Allocation Models”



TIP: Never look at just one year’s budget in isolation – each budget should be viewed as to its potential impact upon future budgets.

Budget Criteria & Policies

- What are the policies?
(Example: A Policy on level of reserves)
- Why have such policies? (To guide the administration on the development and implementation of the budget).
- When do you test?
(Periodically, with the proposed budget, with quarterly financial reports, and with the annual financial audit).



Sample Budget Criteria

- We will develop a budget that:
 - achieves and maintains at least an 8% contingency reserve.
 - Is balanced
 - Includes all known and projected increases in fixed costs
 - Identifies unfunded items not included in the budget
 - Includes time specific plans to fund liabilities
 - Based on planning that reflects district needs
 - Limits on costs of health insurance, salaries and benefits, annual debt service...

The Annual Budget – Required

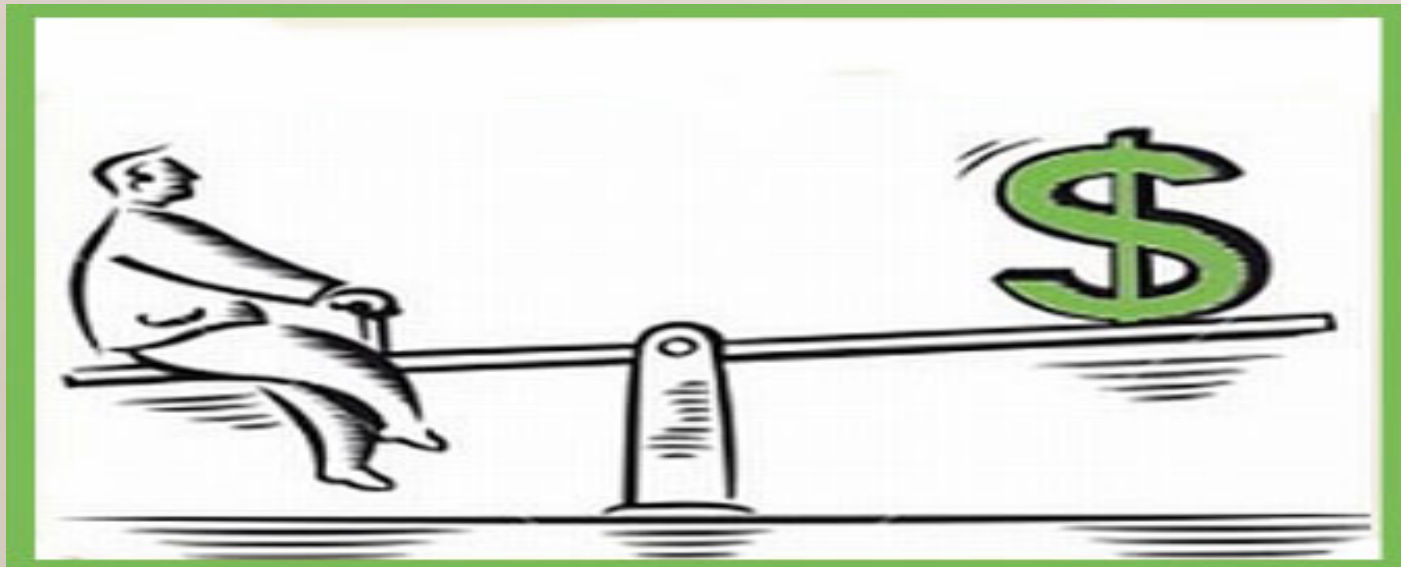
1. Minimum 5% reserve
2. 50% of the budget spent on instructional salaries and benefits
3. Complies w/ Faculty Obligation Number
4. Projections are realistic (given past history)
5. Final Budget adopted by September 15th
6. The Board must approve the budget in a public open session
7. The budget must be balanced

May be balanced temporarily with reserves



The Annual Budget – Issues to address

- Rising pension and medical costs
- Negotiations with unions – salary and other demands
- Restrictions in the use of new money
- Funding Long-term Liabilities (OPEB and Pension)
- How are we funded? (COLA, growth, base?)



The Annual Budget – Investing in Growth

- Apportionment revenue based on FTES
- Funding Uncertainties – Invest vs. Ability to grow
- Growth Formula – “unmet need” vs. demand (weighted based on educational attainment, unemployment and poverty in your district)
- Funding access (SB361), but focus on outcomes
 - New Funding Formula on July 1, 2018!



Student Centered Funding Formula (SCFF)

- Base Grant (70% of funding) – based on enrollment (using a per FTES rate, similar to SB361 but with some differences)
- Supplemental Grant (20% of funding) – based on number of low-income students (CA College Promise Grant, AKA BOG fee waiver, AB 540 students, and Pell recipients)
- Student Success Incentive Grant (10% of funding) – based on student outcomes (# of degrees, certificates and ADTs granted, transfers to 4-year, 9 CTE units, math and English completion, and regional living wage)
- Hold Harmless Provision – No less funding in 2018-19 than received in 2017-18 plus COLA
- 3-year implementation – to 60%/20%/20% by 2020-21

Plan for Fixed Cost Increases and Funding Long-term Liabilities

- Step/column/longevity and salary increases (COLA)
- PERS and STRS Pension Increase Obligations
- Other Post Employment Benefits (OPEB)
 - AKA Retiree Health Benefits



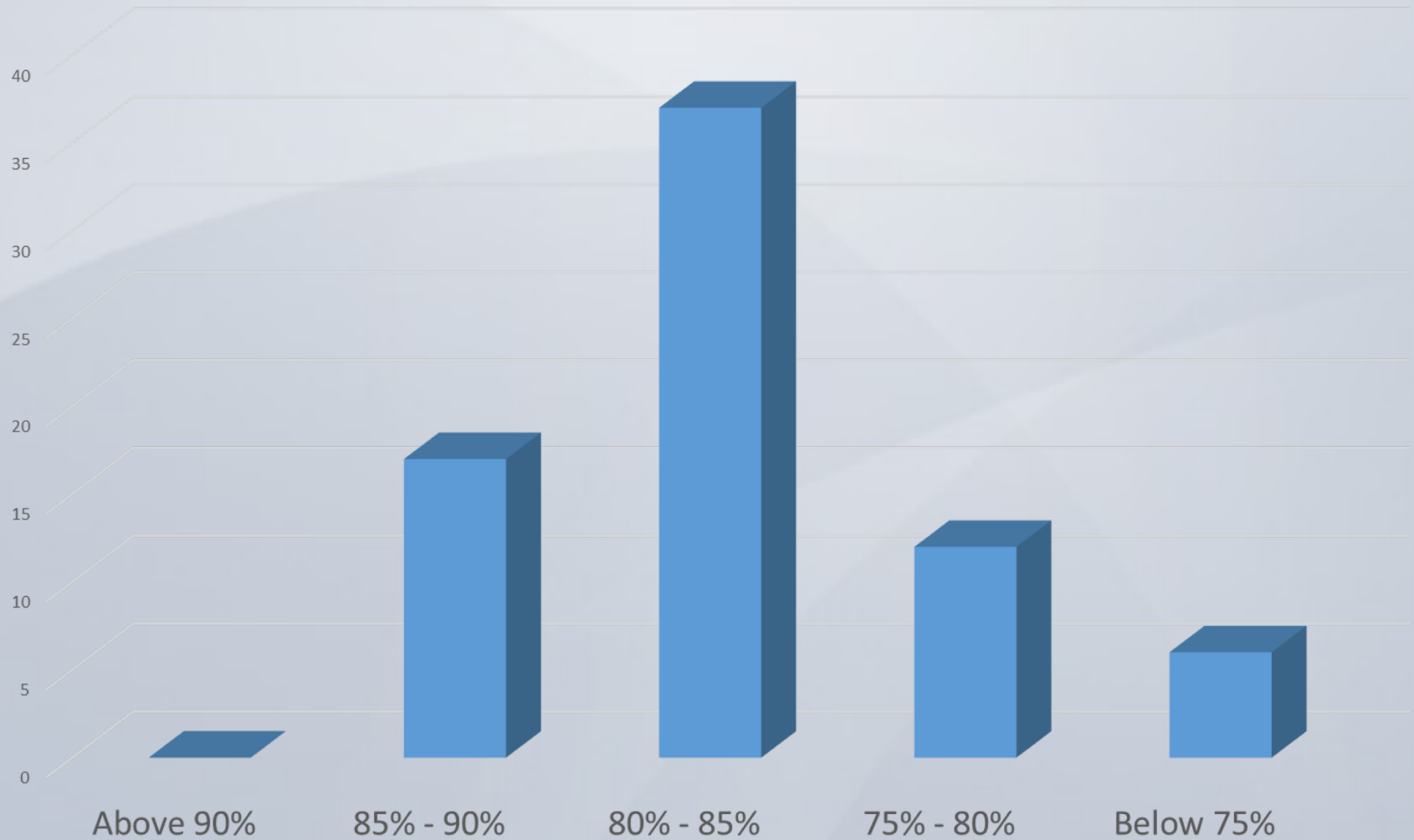
Salaries & Benefits as a % of Budget

- Above 90% provides least flexibility
- Between 80% to 90% - where most districts are
- Between 75% and 80% - in good shape
- Below 75% - most flexibility

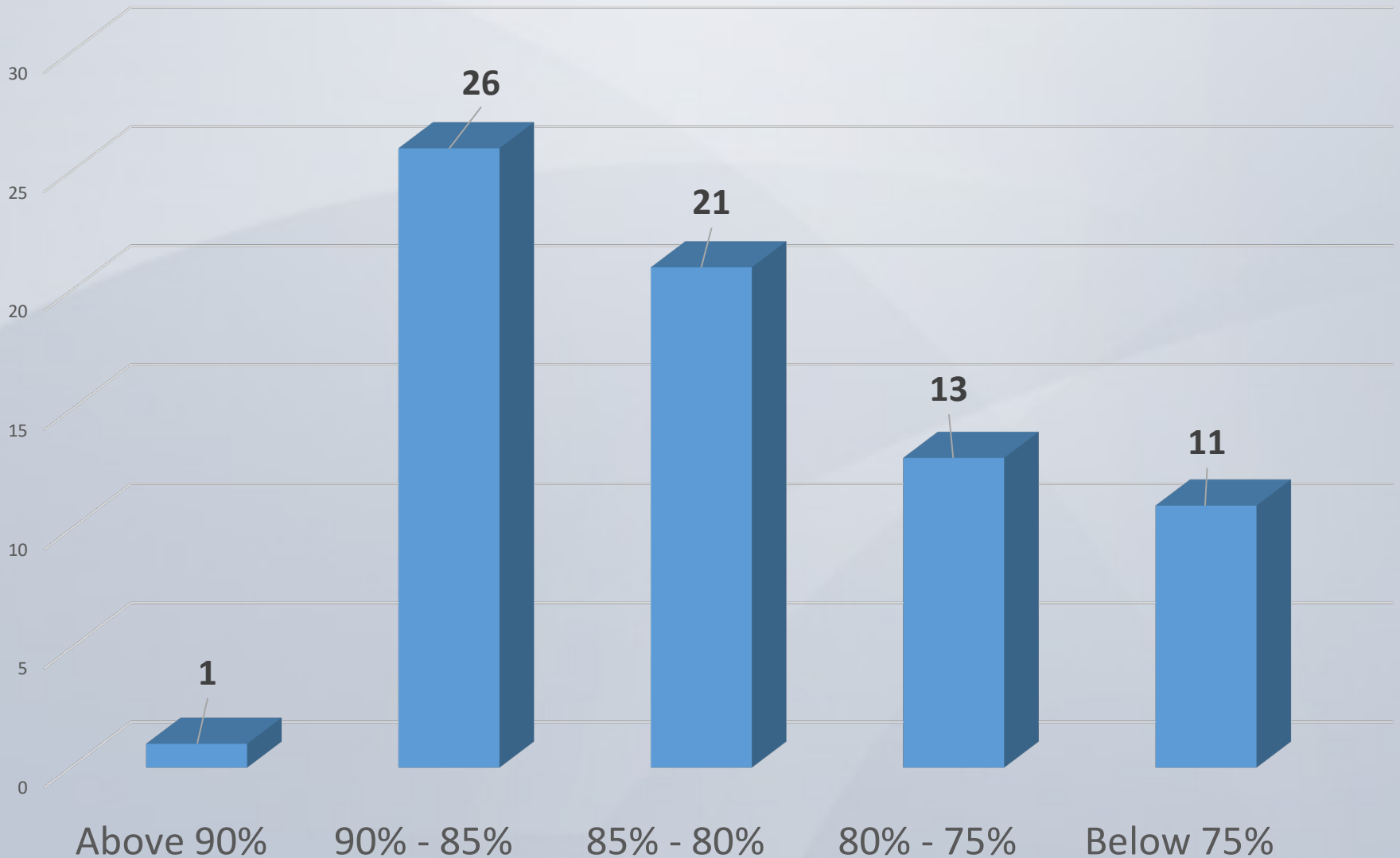


TIP: As budget reductions occur, the % may increase but should aim for around 85%.

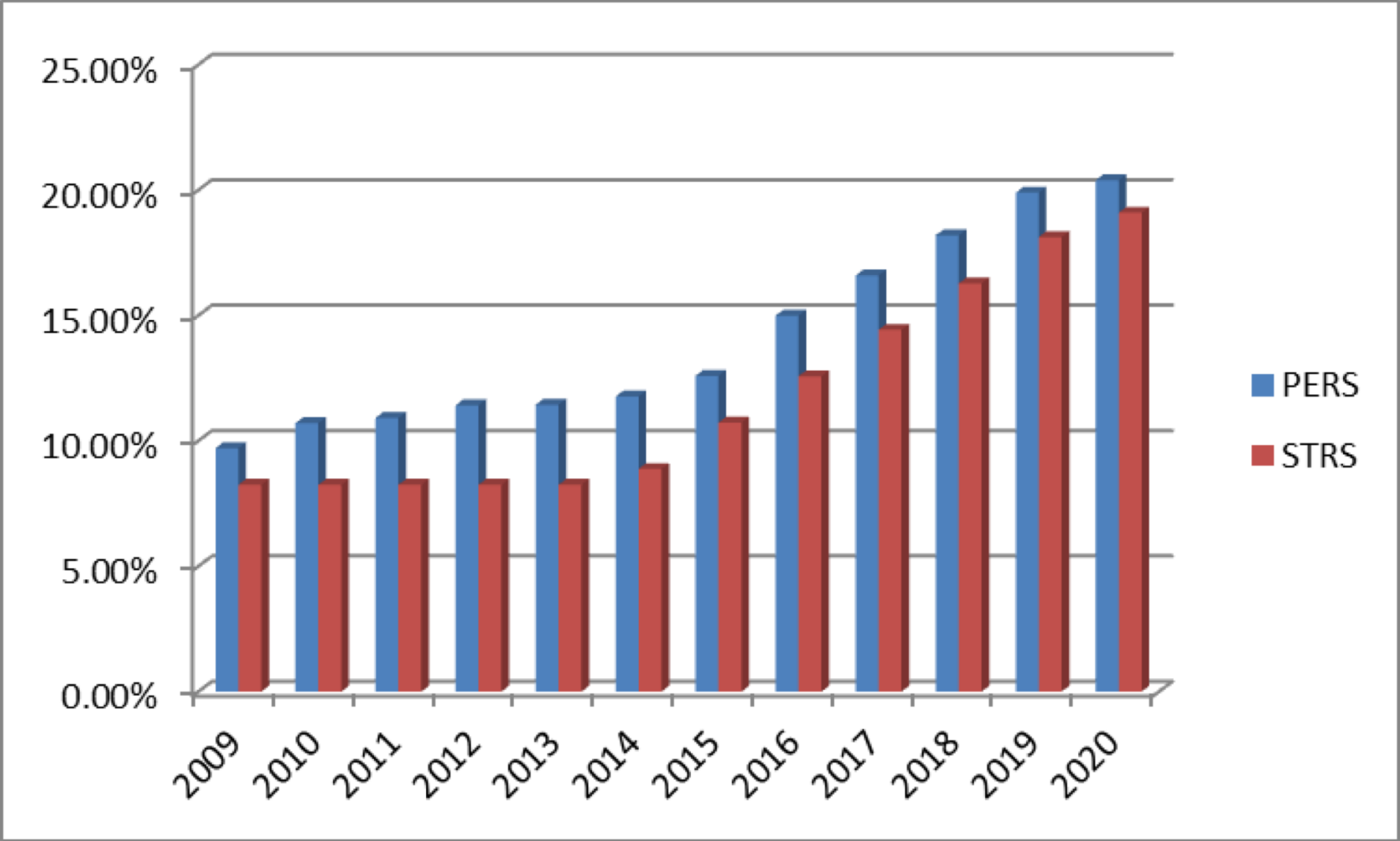
Salaries and Benefits as a % of Budget 2016-17



Salaries & Benefits as a % of Budget 2017-18



Pension Rate Increases

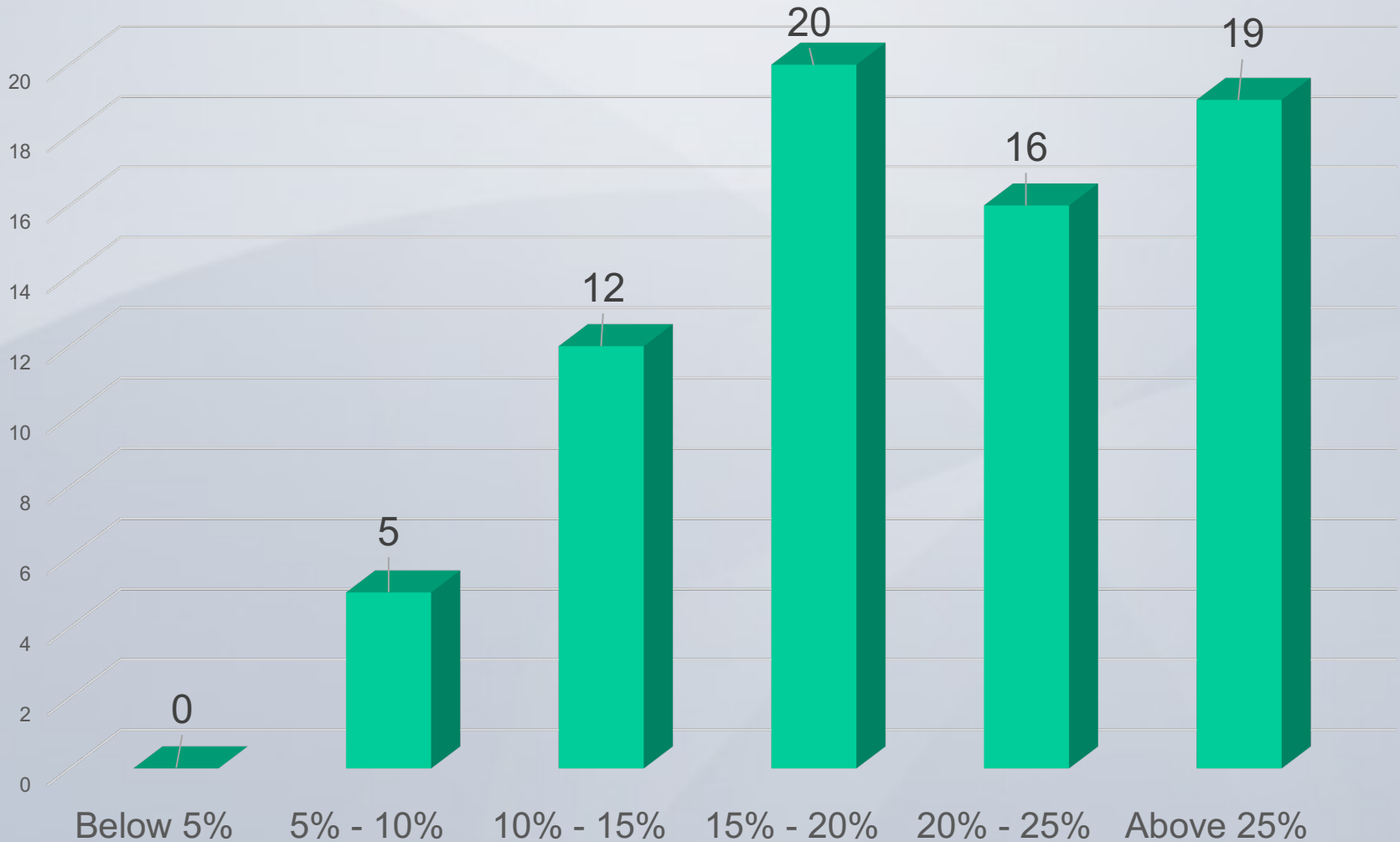


Reserve Levels

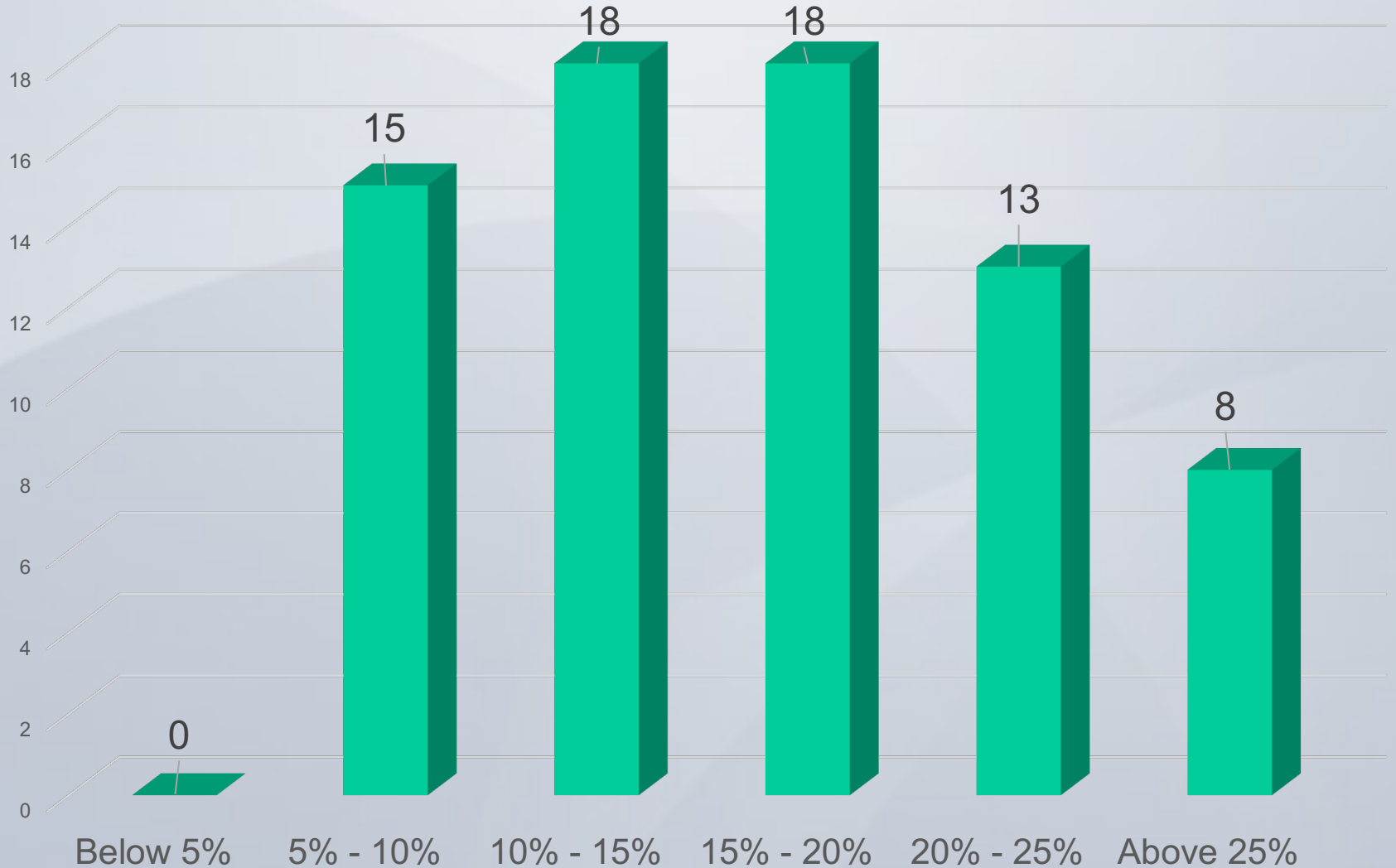
- Set by Policy
- Economic cycles of up & down budgets
- Wise use of reserves can help smooth these waves
- Buys the time to adjust to declines in revenue or skyrocketing costs – does NOT “fix” the imbalance



Statewide Reserve Levels 2016-17



Statewide Reserve Levels 2017-18 Budget



Periodic Reports



Monthly Reports



- Part of Consent Agenda
- Part of Regular Action Agenda
- Agenda Items include: approval of warrants, authorization of contracts, ratification of contracts
- Optional Process: Reviewed Initially by a Board Committee



NOTE: If you have any questions on items, resolve before meeting. If opposed, then ask item be pulled from consent agenda.

Quarterly Financial Reports (311Q)

- Periodic reports of management about **adherence** to the Annual budget and any **changes** that may impact future expenditures and revenues.
- Covers financial quarters – Generally available in October, January, April, and August (may vary by district).
- Due to Chancellor's Office 45 days after EOQ.



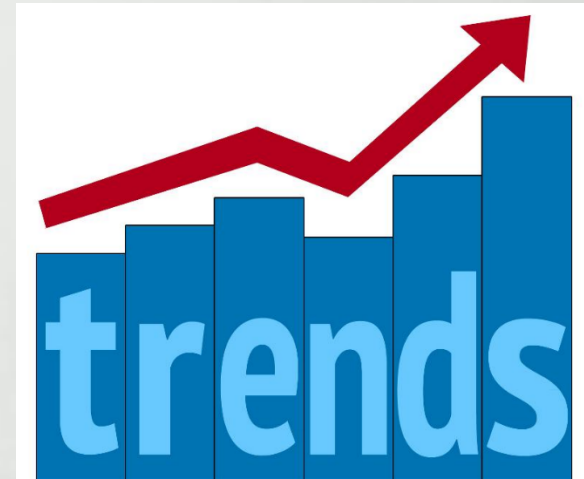
Quarterly Benchmarks to Review

- Rate revenue is received vs. rate of expenditure
- Expenditures are within approved budget
- Adjustments to the approved budget
- Reserves are maintained at approved level



Trends and Key Fiscal Indicators

- How Are We Measuring Up?:
 - Enrollment & productivity trends
 - Condition of all District Facilities
 - Long Term Costs of Debt Service
 - Cost of Retiree Health Benefits
 - Long Term Costs of Labor Agreements
 - Declining fund balance
- Planning:
 - Trust Fund for Unfunded Liabilities
 - Facilities Plan for Maintenance & Repair
 - Energy Conservation/Generation Plan
 - Sufficient Staffing






Audit Report



Why Audit

- Required by Law - but beyond that:
- To Assure Accuracy of Financial Reports
- To Assure Compliance with Laws, Regulations and Policies
- To Assure Compliance with Federal and State Requirements
- Test systems for security of funds and important resources (data security)



 **TIP:** Audits are based upon sampling and review of internal control procedures. No audit will provide a complete validation of the above mentioned items.

Audit Impact on Accreditation

- Adverse information such as a **qualified audit**, **significant fund balance reductions**, **compliance issues**, and other **financial or internal control problems** may lead to accreditation warnings and/or sanctions.



Trustees' Audit Committee Role

(working with the College's Administration & Auditors)

- To select an independent auditor
- To review and understand the District's financial statements
- Internal controls are adequate
- To assure financial statements present fairly the District's financial condition – “unmodified”
- Corrective action plan in place



Questions to ask Auditors

- Where is our District financially vulnerable?
- How can the Trustees and senior management establish an improved financial environment?
- Are there any areas of the audit that District management and the auditor disagree upon?



Trustee Audit Concerns

- Does the audit find that the District's financial statements comply with the required Governmental Accounting Standards?
- Has the auditing firm issued any findings within the financial audit?
- Are there any notes on internal controls concerning the District's management of the budget and accounting systems?
- Is the audit opinion of the District's financial statements modified or unmodified?
(qualified or unqualified)



Other Fiduciary Issues



Other Resources / Information

- Educational Master Plan & the Budget Alignment
- Inclusive District & College Strategic Plans
- Facilities / Facility Condition Index & Facilities Master Plan
- Human Resources/EEO/ Succession Planning
- Technology Resources / Plan for Replacement & Innovation
- Investment of Reserved Funds
- Management of Bond Funds
- Negotiations

Timelines



Calendar of Events

- Annually, the Board of Trustees adopts an Annual **Budget** and associated Budget Administration Policies or Budget Development Criteria.
- Monthly, the CEO provides a report to the Board on the amount of the **expenditures** for the previous month.
- Quarterly, the CEO provides to the Board a Quarterly **Financial Report** and asks for Board approval of the same.
- Annually, the Board, using an **audit**, reviews the financial reports of the College to assure their accuracy. If applicable, audit reports on Bond fund expenditures and performance.

Remember:

- Meeting the fiduciary responsibilities of the Board are critical to the success of your college and more importantly to the success of your **students!**





BIG TIP:
Hire Well Qualified Staff





Where to Get HELP

- CCLC (www.ccleague.org)
- Fiscal Crisis & Management Assistance Team (FCMAT) (www.fcmat.org)
- League publications
<http://www.ccleague.org/i4a/pages/index.cfm?pageid=3285>