FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

January 15, 2021

Lizette Navarette, Vice Chancellor
California Community Colleges Chancellor's Office
1102 Q Street, 6th Floor
Sacramento, CA 95811

Dear Vice Chancellor Navarette:

In September 2020, the California Community Colleges Chancellor's Office (CCCCO) and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to provide technical assistance to Palomar Community College District (district) to produce an update on the district's progress in decreasing its high-risk score for potential fiscal insolvency indicated by the issues found in FCMAT's November 8, 2019 fiscal health risk analysis (FHRA).

FCMAT's follow-up review of the areas of concern identified in the 2019 FHRA included several meetings in fall 2020 and a review of documents provided by the district, with the assistance of Cambridge West Partnership, LLC. The district's leadership team was forthcoming when working with FCMAT and provided follow-up answers to clarify any missing information. The state-appointed fiscal monitor joined all interviews and participated in a comprehensive meeting with FCMAT to review all progress and areas of continued concern. The efforts the college has put forth in the past 12 months are commendable. FCMAT witnessed much more of a team effort than in 2019. Communication throughout the campus and the level of transparency have also improved. Most important, based on the sophistication of conversations FCMAT had with staff, there also appears to be an increased understanding and knowledge of how a California community college operates. FCMAT encourages the college to continue maturing in their conversations by following California community college standards and best practices and using accurate and valid data.

The 2019 FCMAT FHRA report identified eight broad areas in which findings indicated the district's health was being affected negatively. The district has made progress in each of these areas. In some cases the progress has been significant, and in others progress has been hindered for various reasons explained below. A brief review of each recommendation from the 2019 report and the extent of implementation are documented below:

Recommendation 1

Immediately begin bargaining with all constituent groups and reviewing all aspects of contracts. Evaluating the management's right of assignment, health and welfare benefit costs, and the entire salary schedule, should be a high priority.

In the spring of 2020 the district began good faith bargaining steps needed to reduce compensation costs (salaries and benefits) districtwide. A soft cap on health care benefits was agreed to for all eligible employees and memorialized in contracts with employee groups. The agreement identifies the base medical and dental plans offered as a minimum district contribution. In contrast, the health insurance cap for part-time faculty was increased. Although the cap was a first step and acknowledges the district's understanding that health and welfare costs must be controlled, it falls short of achieving the goal of improving the district's ability to control health care costs in the future, because the district is still contractually obligated to pay for all medical and dental increases in the future, even when ongoing revenues remain unchanged or are reduced. The district also offered a retirement incentive that produced the desired results. These retirements helped reduce overall compensation expenses and helped the district move closer to the published faculty obligation number (FON) assigned by the CCCCO.

In late spring 2020, healthy discussions took place about employee furloughs in the 2020-21 fiscal year. Although, furloughs are a one-time savings and do little to correct overall compensation in the long term, employees were bargaining in good faith and their efforts should be recognized. In early summer 2020, the district's leaders decided to recommend a best case budget for adoption, to end the furlough discussions, and to end the negotiations process. This was not prudent because the district still has fiscal issues to address. The concerns identified in FCMAT's FHRA regarding management's right of assignment, aligning staffing with actual student population and full-time equivalent student (FTES) numbers, and the practice of pass-through cost of living adjustments (COLAs) have also not been formally addressed.

Recommendation 2

Establish a comprehensive internal auditing capacity that meets the industry standard for fiscally accountable districts.

The internal auditor has made progress implementing remedies to the identified shortcomings in this area over the last 10 months, including changes related to internal controls and the procurement process. The business office has made significant improvements as well. The budget information presented is far more transparent, easy to follow, and, most important, identifies revenues and expenditures more clearly. Training has also been improved. The use of open purchase orders rather than credit card purchases is an improvement in internal controls. The full adoption of a districtwide procurement handbook is in progress and is expected to be completed soon. The district's audit plan was established, and the issues identified in the 2019 audit have been resolved. The decision to have the internal auditor report directly to the chief business official (CBO), with additional oversight provided by the president, is an improvement; however, to improve transparency and build trust in the district's ability to become fiscally responsible, the internal auditor's work should be completely independent, and the auditor should report directly to the governing board.

Recommendation 3

Review the management structure in all academic and nonacademic areas. Establishing clear roles and responsibilities and well thought out communication strategies for each position should become a priority. Understanding best practices for, and providing comprehensive training in, Education Code, Title 5 and state and federal labor laws will serve the entire district well.

The district is discussing reorganization strategies. Although some key positions are being filled with permanent appointments, the district continues to rely heavily on interim assignments. Minimal progress has been made. It is vital that the district be able to clearly identify managerial rights and the structures to uphold those responsibilities while acknowledging the rights of faculty and classified staff.

Recommendation 4

Update and follow a comprehensive districtwide planning process that drives budget development.

The district's progress toward implementing a comprehensive planning process is excellent. The strategic program review and planning cycle document is well thought out, complete, and over time will begin to help the budget development process. The district's planning cycle should be evaluated after the first year of implementation.

Recommendation 5

To optimize offerings for students, establish and follow a collegewide comprehensive enrollment management plan that uses demographics, enrollment trends, program review and facility capacities as well as other relevant information.

The conversations about enrollment during multiple interviews, and enrollment management planning and documents, were much more specific and knowledgeable compared to one year ago. The level of thought, knowledge and expertise apparent during the meetings and in written documents shows much more detail and understanding of the process. The draft enrollment management plan and supporting reports are well written. The discussions about meeting classroom efficiency standards were promising because they show attention to this important topic, though action will still need to be taken. Current data indicates the district is 20% below meeting the California community college classroom efficiency standard, which is creating much of the burden on the unrestricted general fund. An efficient classroom schedule is vital to fiscal stability and must be further explored and prioritized.

Recommendation 6

Conduct a data integrity study to validate all data used for decision making and to ensure it is accurate and understood consistently by all users. Increase the use of district-approved standard reports that have been well vetted and that all who use them can understand. Reducing the learning curve of district personnel as they begin to use data to guide decisions should be a priority.

During FCMAT's 2019 FHRA review, the FCMAT team witnessed the district's sense of urgency related to improving data integrity and report writing abilities. During the last 12 months, substantial progress has been made in these areas. The district developed a plan to implement a data warehouse, which will provide district staff with data reports to help them make more complex decisions.

Ensuring the district uses reports that have a standardized content and format will reduce the learning curve and improve communication and understanding. Although progress has been impressive, continued focus on this multiyear project should continue with undiminished urgency.

Recommendation 7

Integrate position control and enrollment management with the financial reporting systems in accordance with standard and best practice.

The integration of position control and enrollment management is complex and will require assistance from an external vendor with the district's student information system. The district has funded a plan for this that will begin during the spring and summer of 2021.

Recommendation 8

Establish and follow a comprehensive training program for the board of trustees, in the area of data integrity and for specific departments about Education Code, Title 5 and labor law.

The district has developed a training plan and has conducted several training sessions during the past 12 months. The business office has been instrumental in these efforts. The training sessions focused on budget-related exercises with all areas of the institution. The training schedule is posted online. The interviews with the training coordinator showed him to be knowledgeable about the district and its overall needs. It is clear the major departments are working with the coordinator, and the coordinator is working hard to make sure the training content is of value to everyone. The district's annual training plan is prepared and will be presented to the board for review and approval soon. All educational and training opportunities should include an assessment component to measure for understanding.

2019-20 Final Budget Summary

During the spring of 2020 the district made excellent progress toward reducing the approximately $12 million deficit identified in its adopted budget. Actions taken include removing unfunded positions and capturing cost savings due to COVID 19 (e.g., utilities, supplies). Although the $5 million loan from Fund 69 was still needed to achieve a sufficient ending balance, significant progress was made.

Although the ending balance is important, it is clear from conversations that the district's leaders understand that its expenditures are out of balance and need to be addressed, and that a primary contributing factor is that overall compensation expenses exceed classroom revenues. The goal is to balance expenses to align with California community college funding sources.

2020-21 Adopted Budget

The district's 2020-21 adopted budget takes advantage of negotiated savings from reductions in medical and dental costs and reduced retiree costs, one-time reductions in the State Teachers' Retirement System (STRS) and Public Employees' Retirement System (PERS) contributions, and the addition of Coronavirus Aid, Relief, and Economic Security (CARES) Act funds to offset supply costs. The adopted budget does not rely on borrowed funds to balance the budget. Projections show that overall compensation totals 89% of ongoing revenue, which is a slight improvement from prior year. The budget does not include a repayment of prior year loans from the retiree account.

Future Year Budgets

The district's short- and long-term budget problems continue. The multiyear financial projections in the district's adopted budget indicate that the ending balance will reduce slightly from 2020-21 to 2021-22. FCMAT is concerned that the assumptions used in future year budgets do not include potential reductions in revenues based on current economic factors. It is also a concern that a small COLA increase and funding for two newly funded centers (which have not been approved) was included in the assumptions as was a continued tradition of passing through COLAs to employees. Even using the best case scenario to retain a 15% ending balance, the district will need to reduce spending by $4 million in 2022-23, an additional $2.6 million in 2023-24 and an additional $2.1 million in 2024-25. FCMAT is concerned that the district cannot afford any reduction in revenue or additional expense for the foreseeable future.

The district is making every effort to capture center status funding for its Fallbrook and Rancho Bernardo learning sites, which continue to show enrollment promise but lack the enrollment needed to reach the minimum required number of FTES. The district is currently including distance education FTES for the centers to meet requirements; however, Title 5, section 58771 describes the process for capturing basic allocation revenues for centers, which does not seem to include previously incurred district education FTES. The intent of this section is to specify how FTES may be moved from one learning site to another; it does not seem to allow the district's assumption that it can move previously recorded distance learning FTES to a new center to initiate funding.

The district is also looking several years into the future in an attempt to project if and when it will become community supported, which occurs when a district no longer receives state apportionment to meet its projected total computational revenue (TCR). Over time, revenues can increase and exceed the TCR, giving the district increased revenues. If and when this occurs, revenues will increase; however, without sound fiscal policies any benefit from this will be short-lived. It is possible for a district to repeatedly achieve and then fall back out of community-supported status, depending on several factors. The district should complete a full assessment of its potential to achieve and maintain community supported status to help all constituent groups understand the nuances of the funding and how to best serve the community.

2020 Recommendations

The district has made substantial progress in its understanding of the complexity and level of expertise required to properly manage a district within the California community college system, recognizing that every constituent group plays an important role. The planning and implementation of several major initiatives are under way and should continue with the same sense of urgency.

Along with district staff, faculty and management, the board of trustees should focus on establishing benchmarks and adopting best practices that ensure that the Palomar Community College District is able to continue meeting the needs of the community. These institutional, board-adopted benchmarks will help keep the district fiscally sound in good and bad financial times. Well thought out policies that focus on meeting benchmarks will help the district in times when not all decision making groups are able to fully uphold their responsibilities. This approach to district management creates stability and, most important, serves students well. Following the recommendations below will allow the district to fully pay back its loans and fund its retiree obligations, align total compensation with actual revenue produced (not including hold harmless funding), and, most important, have one-time funding available to try innovative ideas and programs to help future generations of students.

Recommendations

The district should:

1. Establish a three-year goal to reduce total compensation to less than 85% of ongoing revenues. Currently, the projected budget is 89% of hold harmless funding or 93.8% of actual revenues produced. A study identifying true fixed costs at the district will validate the need to set the target below 85%. Substantial progress is needed, and negotiations should resume immediately.

2. Establish and review an annual report that describes the district's level of fiscal resilience. Understanding fixed costs versus one-time expenses will serve the district well as it develops budgets in the future. Establish benchmarks for costs in board policy and adhere to them.

3. Maintain a full-time faculty obligation count no higher than 2% of the CCCCO published minimum. Follow a process that ensures a balance of full-time and part-time faculty as needed to ensure it is acting in a fiscally responsible manner. Ensure it has a clear understanding of how revenues are produced and the role of the 50% law.

4. Establish a three-year goal to achieve the California community college classroom efficiency standard for a district following a condensed calendar outlined in the Chief Instructional Office Handbook produced by the CCCCO. If the standard is not achievable, reduce overall compensation accordingly.

5. Establish a process to perform a five-year trend analysis that compares ongoing revenue, classroom efficiency, full-time equivalent personnel, and compensation year to year. Make annual personnel and budget adjustments based on the analysis. Establish benchmarks and triggers for action.

6. Review an annual list of institutional priorities, informed by the newly implemented comprehensive districtwide planning process. The annual list is critical to bringing

credibility and transparency to budget development. It also memorializes what the district wants to do that is not currently being done, as well as what is currently being done that it wants to continue. For example, once funds are freed up from overall compensation, what innovative activities, facility improvements and technology would the district want to implement that would increase their students' opportunities for success?

7. Develop realistic revenue and expenditure assumptions that do not rely on the funding of the proposed centers. Because the proposed centers may not reach the state enrollment thresholds needed for funding, they should not be relied on to provide ongoing revenue.

FCMAT appreciates the opportunity to serve the California Community Colleges Chancellor's Office and the Palomar Community College District and extends thanks to all the administrators and staff for their assistance during this review.

Sincerely,

Michelle Giacomini

Michelle Giacomini
Deputy Executive Officer