FISCAL MANAGEMENT

The District endeavors to allocate resources based on research and the shared governance process at the college. This is the District's proposed process on budgeting and major expenditures.

Fiscal Principles and Procedures for the College of the Sequoias

Prime Directive

The budget shall be developed so that at least a 6% reserve is maintained for the General Fund. In all cases proposed expenditures should not exceed revenues plus reserves in excess of the required 6% General Fund reserve.

Program Review as a Mechanism in Budgeting

Program Review documents will used as primary support in initiating all requests for staffing, monies or facility resources. Careful planning and prudent requests should be made by department after review of data in support of growth or change. Deans supervising the departments need to Review Annual Reports that support staffing, revenue or facility changes should also be provided when the requests are made to instructional council, college council, President’s cabinet or other share governance entity.

Full-time Faculty Positions New and Replacements

Annually, the Vice President of Academic Services and the Vice President of Administrative Services shall evaluate the Fulltime Faculty (includes contract instructors, counselors and librarians and other FTO positions), Obligation Number (FON) for the next two years. This analysis will assure that the FON (Faculty Obligation Number) for the coming fall will be met and will estimate the FON for the year after next produced by FTES (Full Time Equivalent Student) growth that year. If growth produces an increase in the FON, funds will be set aside for those positions. This analysis will also delineate the number of separations which have occurred. The total of growth and separated positions will be the target number of positions communicated to the Instructional Council for prioritization.

The Instructional Council will review fulltime faculty positions requested that are needed to maintain Fulltime Faculty Obligation as well as additional fulltime positions needed for the instruction and student services programs. Positions request will be submitted with the most recent Program Review and the requesting division’s Annual Review report. Priority of positions will be will be driven by College Mission, Institutional Goals and Objectives, and student demand for courses of instruction and support services, with demonstrated identification of the departments need in the latest Program Review and Annual Review.
Positions not demonstrated in Program Review or Annual Reviews should not be approved. Requests to President’s Cabinet can override this omission if sufficiently critical. The fulltime faculty positions, each with a written rationale, will be submitted to College Council which will forward their recommendations to President’s Cabinet. The process and criteria used by Instructional Council to produce this prioritized list will be documented and included as an appendix to these Fiscal Principles and Procedures.

After Cabinet review of projected revenues and instructional needs and alignment with the Institutional Mission and division’s most recent Program Review, an approved list of new instructional positions will be forward to Human Resources for posting and recruitment. The cycle of prioritization and hiring will be such that the majority of fulltime faculty positions will be advertised beginning in late fall each year. If the final list of approved fulltime faculty positions differs from that recommended by College Council, the President will provide a written rationale.

**Block Grant for Instructional Equipment, Library Materials, and Technology (One Time Expenditures)**

The College receives an annual allocation of Block Grant funds for instructional equipment, library materials, and technology from the California Community College System Office. In order to utilize these funds matching funds from local one time or general fund monies are required. If a local match is not available, these funds might need to be returned to the state. The limitations on the use of these funds are explained in the appendix provided by the Chancellors Office annual budget workshop. The Vice President of Academic Services and the Instructional Council will make the first review of a spreadsheet detailing the Block Grant requests. The requests need to be supported by the division’s Program Review or Annual Review. Funding for additional requests should only occur after review of current Program Review, Annual Review, Carry Over amounts per discipline and a review of the current budget for the discipline to insure that discipline moneys are not adequate for the requested equipment. Block Grants funds can be carried over to the next fiscal year, but, by College policy, no longer than one year. The process and criteria used by Instructional Council will be documented and included in the appendix to these Fiscal Principles and Procedures.

**Classified, Confidential and Administrative Positions (New)**

Requests for new classified positions will be reviewed by College Council with rationale for position, identified Program Review or Annual Review needs, along with total cost estimates and Dean and Vice President’s prioritization. A listing of requested classified positions will be forwarded to President’s Cabinet with College Council’s comments and/or prioritized recommendations. The Cabinet will review funding availability and alignment with College mission/goals/objectives in filling new position requests.

**Classified, Confidential and Administrative Positions (Replacements)**

Vacant positions currently funded in the immediate fiscal year budget will be replaced only after being reviewed by President’s Cabinet. Human Resources will maintain a Position Control Report on all new and replacement positions to facilitate this review. The Cabinet shall review this Report at least monthly. The Cabinet will review funding availability and alignment with College mission/goals/objectives in refilling vacant budgeted positions.
Non-Block Grant Eligible Requests (One Time Expenditures)

Budget requests not eligible for Block Grant funding will be reviewed and prioritized by each Vice President and then by an annual meeting of the Instructional Council at which Student Services, Administrative Services and a President’s Office representative are in attendance. The resulting prioritized list of requests will be reviewed by College Council. The list must include a written rationale for each item, identified Program/Annual Review needs, and a cost estimate. A listing of reviewed equipment with College Council’s input will be forwarded to President’s Cabinet. The Cabinet will review funding availability and alignment with College mission/goals/objectives in one time non-instructional equipment purchases.

Facilities: Minor Renovation and Capital Building Funds

Requests for minor building renovations shall be reviewed and prioritized by the Facilities Committee. A fund of $50,000 will be set aside annually for such purposes. Requests beyond that amount may be forwarded by the Facilities Committee to the College Council for consideration if funding resources are identified. If the College Council so desires, requests may be recommended to the President’s Cabinet for completion. Scheduled Maintenance projects will be identified annually by the Dean responsible for Facilities Planning and reported to the Facilities Committee and then the College Council. Requests for Capital Building Funds shall be reviewed by the Dean responsible for Facilities Planning who will discuss the requests with President’s Cabinet before updating the Five-Year Facility Plan.

Scheduled Maintenance

Scheduled maintenance of District resources is important to the efficient operation of the College. The California State Community College system usually allocates monies to the college for scheduled maintenance, but the funding requires a one to one match from the District. The District has the option of using one time monies or general fund monies to provide the match.

Safety Fund

The District’s Joint Powers Agreement (JPA) for liability coverage for the District returns money to the District most years for the fixing of safety problems. The funding from the JPA will be placed annually into the safety fund for use and appropriation recommended by the Safety Committee and approved by the Vice President of Administrative Services. This money is reserved for safety items and is expected to cover most safety issues. It is not within the scope of the Safety Committee to make expenditures for instructional programs, etc.

One Time Savings (Cost Recovery)

Administrative Services will identify one time net savings from positions that were funded and occupied in the final annual budget approved in September. If the position was vacated for a period and refilled during the prior year, those net savings from that vacancy will be identified and reported to President’s Cabinet for allocation to meet one-time needs as prioritized through the Block Grant, Non-Instructional Equipment, or Facilities Renovation
processes. Net savings consist of the total compensation budgeted but not expended minus any costs for temporary replacements or out-of-class assignments. Since these are one-time savings, the monies cannot be used for ongoing expenses or employee positions. Since all these monies are part of the District’s ending balance, only monies in excess of the 6% requirement can be approved for expenditure.

**Budget Development**

Revenues and contracted expenditures shall be identified by Administrative Services starting in the spring of each school year and reported to President’s Cabinet. After the preliminary development of new revenues and new expenditures for the upcoming year, the tentative budget will be reviewed by the College Budget Committee. Recommendations for expenditures and revenues, compliant with the 6% reserve Board Policy, are then sent to Cabinet for further review. After the May Revise, the revised tentative budget will be returned to the Budget Committee and forwarded to College Council for comment. The President’s Cabinet will then approve the Preliminary Budget to be sent to the Board of Trustees for its approval at the June meeting.

Following finalization of the state budget and reconciliation of funds following the close of the fiscal year, a Final Budget will be prepared by Administrative Services, approved by the President’s Cabinet, and sent to the Board of Trustees for its approval at the September meeting.

**Step and Column**

It is expected that, over multiple years, the funds saved by retirement/separated positions being hired at lower cost levels will cover the cost of step and column changes for continuing employees. The net gain/loss from replacements/separations compared with those hired will either be added to or subtracted from COLA available for ongoing costs such as employee compensation in the form of salary and benefits. This adjustment will be made in the Final Budget due to the necessity to identify actual costs for new hires. (Note that “Golden handshakes” reduce the funding source for these contracted changes. This forces step changes to come out of COLA reducing the District’s ability to offer competitive compensation.)

**Total Cost of Compensation**

The budget impact of employee compensation levels includes step and column increases, salary, benefits and employer contributions. The funding sources for compensation of permanent employees must be ongoing in nature and include COLA, growth, and increases in the FTES funding rate provided by the state. Each year, during Budget Development, a projection of these revenues and expenditures will be provided by Administrative Services and updated regularly as new information becomes available. The timelines and format for that analysis appears in the appendix.

**Full Time Equivalent Student - Growth**
The District’s ability to hire additional faculty is based on FTES growth. If growth occurs, the monies must be set aside to hire growth faculty. Failure to budget growth monies for new faculty will result in COLA (Cost of Living Adjustment) monies being used for new faculty—again compromising the District’s ability to offer competitive compensation. Similarly, the District’s ability to hire staff requires an ongoing source of funds—growth. In years when growth is not produced, new permanent positions cannot be anticipated.

**GASB 45 Obligations – Retiree Health Care**  
(Government Accounting Standards Board)

The District has entered into contracts with employees for health care after retirement paid for by the District. The District updates the actuarial report every three years to reflect earnings, changes in employee numbers, and changes in health care costs. The overall obligation for these retiree benefits is about $21 million. The District has set aside over $4 million to meet this obligation. One million is held locally in the county treasurer’s office and over $3 million is being held in the California Community College League Joint Powers Agreement for Retirees Health Care Investments fund. Monies in the Retiree JPA fund cannot be withdrawn, but they can be spent down by paying retiree’s health care annual payments.

Based on the most recent actuarial study, the District must set aside $2,375 every year for every employee who might be eligible for retiree health care. This equates to a total of $514,049 annually. Categorically funded employees will be charged the $2,375 each year to their program.

The District plan for funding the retiree health care obligation is to use one time incidental funding rather than building the $514,049 into the annual budget. Usually the district receives some unexpected money each year that can be used to fund this obligation.

The Community College League of California (CCLC) Retiree Health Benefit JPA (Joint Powers Agreement) has 22 (2007) California Community Colleges as members. The League has developed four investment strategies. One is all fixed incomes such as government backed bonds and mortgages and the other three plans are a mix of equity and fixed investments. One of the primary benefits of the JPA Trust is its legal ability to invest in a long-term portfolio of diversified investments, therefore increasing the rate of return on those savings over local county treasury investments and, thereby reducing costs to fund retiree benefits for participating districts. The District has a Board appointed local retirement board composed of the President, Vice President and Dean of Human Resources who meet at least annually to review the investments of the JPA.

**Categorical Grants**

Categorical funds are allocations that are given to the College that must be spent according to the rules of the granting agency. Budget managers of categorical funds are expected to stay within their budgets and to follow all regulations and stipulations of the grant. Once approved, all grant documents/contracts/budgets should be forwarded to the Categorical Accounting Officer for review. Submit all fiscal reports to the Categorical Accounting Officer for review prior to submittal to the granting agency. The Categorical Accounting Officer will
meet with each budget manager at least twice a year, once in February to do a preliminary review and once in May or June for a year end review.

The direct manager of the categorical grants/allocation/funds will be responsible to lay out a spending plan to accomplish the goals of the grant. The manager is responsible to his or her direct supervisor for success or failure to accomplish objectives. The failure to spend or overspending monies in the grant and how they were actually spent will be under the purview of the Categorical Accounting Officer and the Vice President of Administrative Services. The manager of the categorical program will be held responsible for goal accomplishment, for making expenditures within the parameters of the program, and for the correct reporting of the revenues and expenditures.

One-Time Monies – Incidental

The District regularly receives unanticipated monies, usually not ongoing monies. If the money is ongoing, it can be budgeted and is no longer incidental. These moneys can be used for one-time expenses, expenditures that will reduce operations expenses in the future, i.e., heating or air conditioning changes which will reduce energy consumption. These monies can be used to meet the annual GASB retiree contribution. A representative list of the sources of one-time funds is included below.

1. **Mandated Cost Reimbursements:** Currently the College of the Sequoias is owed almost $3 million dollars by the State of California for documented mandated costs.
2. **Excess Insurance Reserves:** In 2004-2005, COS had lower than expected health insurance claims, and the excess was held in a Blue Shield reserve. The excess amount was returned to the District and was approximately $500,000.
3. **Excess Energy Cost Reimbursement:** The College recovered almost $500,000 from excess cost energy claims that were reimbursed to the college at the end of 2005-2006.
4. **Sale of District Properties** (revenues from street widening): State compensation for widening Mooney Boulevard.
5. **Existing Debt:** Shifting of facilities expense or conversion of existing debt could free one-time monies for retiree health obligation.
6. **Technology Investments:** Investments that have a reasonable return on investment (ROI) can be used to pay off the technology capital investment and after the loan is paid off the savings over several additional years are put into the retiree fund.
7. **One Time Grants:** One time grants from the state government given without strings to the district.

Cash Flow

The College frequently has demands for cash for payroll and accounts payable that exceed monies available. This is due to when taxes are paid and the method used by the state to pay the apportionment. The College uses three means of accommodating calls for cash. The most frequent is moving cash between funds. The board authorizes an annual blanket authorization to borrow from any of the College’s funds. For example, the retiree benefit fund which has cash might contribute to the general fund to make payroll. When the local tax monies come in, the temporary cash flow loan is paid off. The College currently uses the procedure that oldest loans are paid off first. Any cash flow loans open on June 30th are reported in the final budget documents presented to the board in September.
The College also uses TRANs (Tax Revenue Anticipation Notes). This financial vehicle was developed to cover cash needs of schools when taxes were paid only twice a year. COS uses a TRANs for cash flow for its building and general funds. The TRANs is entered into in May of the previous year, and Board must take roll call action to initiate the TRANs. The money is available in July and is repaid in two installments, one in February and the other in May. The money is available at a very good rate and usually the District can earn some arbitrage from the TRANs. The TRANs must be fully paid and does not cross fiscal years.

The other vehicle is a short term loan from a local bank. The bank uses a lien on District property as surety for the loan. Moneys are used for cash flow for construction and general fund operations. Bank loans are more expensive than a TRANs, but they provide monies over the fiscal year end. The TRANs is the usual instrument for external cash flow.

Community College State System Funding

The California Community College System provides monies to the District based primarily on the number of full time equivalent students (FTES). The College also gets an annual “foundational” allotment; this is $3 million for the Visalia campus and $1 million for the Tulare campus. A Cost of Living Adjustment (COLA) is usually given on these funds. The foundational money is part of our state allocation funds. The College reports FTES four times during the year, P-1 in February, P-2 in April, Annual by July 15th and adjustments in November. These reports affect the flow of State cash into the District. The Annual report projects FTES for the subsequent year and is used as the basis for paying August through January. The P-1 is used for making payments in February, March, and April. If the P-1 shows a larger number than the prior years annual FTES report, the State does a “catch up” so that by the end of April the monies owed to the District based on the P-1 will have been paid. The P-2 works in a similar fashion and if the numbers increase we get additional monies, and if they decrease we get less.

The Annual FTES report usually finalizes FTES for the year, but adjustments can be made in November. In November all the colleges will have closed their accounting books for the year. They will have reported all the final local taxes that have been received. The Chancellor’s Office calculates the total FTES that were earned up to each district’s authorized FTES cap. Using the FTES dollar rate, they calculate the total dollar demand against monies allocated by the legislature for the prior year. They then look at all the colleges’ demands for tax shortfall. The actual local taxes received by COS can differ from the estimated taxes calculated by the Chancellor’s Office at the beginning of the prior year. These short falls and overages throughout the system are calculated. If the funding is adequate to pay all FTES and tax shortages for the entire California Community College System, the districts that are over cap get an additional prorated allocation. If the legislative allocation is inadequate to fund the earned FTES and tax shortfall, the colleges are deficit funded. For example, COS might get funded at 99.5 percent, so actually funding from the prior year is one half a percent less than was budgeted. So, not until February after the close of the books for the previous year will the District know how much money it actually received from the state for the prior year.
Local Operational Funding for the College

The District’s revenue is calculated from FTES and the foundational allocation as explained above under State System Funding. This formula constitutes the Revenue Limit; it is the authorized funding limit of the State Community College System. Example: If the Revenue Limit from the state comes to $40 million, and if local taxes are $8 million and student fees are $2 million, the state apportionment will be $30 million. While local revenue makes a contribution to COS’s operation, the state subtracts the local taxes and student fees from the Revenue Limit. The amount that they pay to COS is called apportionment and does not include taxes or collected student fees. The only local taxes that COS does not count under the Revenue Limit are Urban Renewal Taxes.

College Debt

The District incurs some long term debt in the operation of the District. Current debt is associated with parking lot purchases, building remodeling, and additional funding to supplement state funding for facilities. A reasonable debt level corresponds to the total of payments for principal and interest being at a level which is not more than 10% of general fund expenditures.

The College incurs internal debt when it borrows money from one fund to provide cash flow for another fund. If the construction fund needs to pay a contractor and will be filing with the state for a reimbursement for this expenses, cash flow will be necessary to write the checks to the contractor. Borrowing from the Farm Fund would be a temporary loan so that the Construction Fund can make payments, until the state reimburses the Construction Fund. When that occurs, the Construction Fund would reimburse the Farm Fund for the temporary cash flow loan. The District requests blanket authority from the Board to make these temporary transfers. All temporary cash flow fund transfers unpaid at the end of the fiscal year are reported in the final budget report completed in September.

Lease Borrowing

The District can also initiate borrowing in the form of a Lease, which is different from a Certificate of Participation (COP) or Bond. Let’s say that the District has an old warehouse which is physically sound but is not suitable for offering instruction. The District with a Board resolution can enter into a lease that will remodel the facility and the District in affect leases their own building from a lender until the remodeling and interest costs are paid off. The funding for lease payments comes from the general fund revenues and reduces monies available for usual instructional expenditures.

Bonded Debt

The District has several options for entering into bonded debt. All require going to the voters to approve a bond that increases property tax for residential and business property. The standard general obligation bond requires a two-thirds positive vote from voters in the District. A Proposition 39 bond only requires a 55% approval vote, but the maximum rate is $25 per $100,000 of assessed evaluation of taxable properties, and elections must coincide
with regularly scheduled elections. In addition, the Proposition 39 bonds must have a citizen’s oversight group to review expenditures, and it must also list all the items that will be purchased with the bond proceeds.

Districts also have the option of creating an SFID (School Facilities Improvement District). The SFID allows the District to build a facility that is of interest only to a specific community in the District that might not be of interest to the rest of the District. In this process a part of the District is identified that might want to support a local facility, and the question is put to the voters in this area. If they approve, the District has the right to sell the bonds and to use the approved taxes to build or buy the identified project.

**Certificates of Participation**

Certificates of Participation commonly known as COP's are a form of borrowing by K-12 and Community College Districts that is permitted by law. The loans are done by the Board passing a resolution to issue a COP. The COP is sold through the commercial financial market as a tax free investment, meaning the college gets very low tax rates. The loans are sold to investors and financial institutions and the money comes to the College. The College uses the money to build buildings or buy land. The COP is paid out of District operating funds. This is usually not a recommended way to finance building or land acquisition, but when funding from state construction bonds is not available and a local bond will not pass, it is an alternative. The negative side of COPs is that they must be paid back with general fund revenues that are needed for operating the College, such as salaries for staff and faculty and service to students.

**Repayment of Debt**

Debt is usually paid through three sources: local taxes to make payments on bonds, SFID and Proposition 39 General Obligation bonds, and general apportionment funds. General apportionment (operating funds) can be used to make payments on COPs or facility leases. The District can also sell off existing assets to pay off debt. The District can also shift COP or lease debt to bonded debt. There might be times when it the District can save significant monies by entering into a COP to buy land or some other real estate. Later the District can pass a bond which will pay off the remaining debt and reimburse to the District expenses, interest and principal that have been paid against the COP used to buy the real estate.

Reference: Educ. Code Section 84040© Title 5 Section 58311; Accreditation Standard III.D.2