

HARTNELL COMMUNITY COLLEGE DISTRICT

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BOARD WORKSHOP

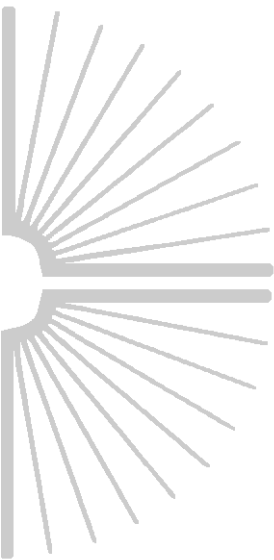
AGENDA

Saturday, June 6, 2009
12:00 p.m. – 5:00 p.m.
Hartnell College Library
Distance Learning Room – LRC115
411 Central Avenue
Salinas, California

MISSION STATEMENT

Hartnell College provides the leadership and resources to ensure that all students shall have equal access to a quality education and the opportunity to pursue and achieve their goals. We are responsive to the learning needs of our community and dedicated to a diverse educational and cultural campus environment that prepares our students for productive participation in a changing world.

- I. OPEN SESSION/CALL TO ORDER
- II. PUBLIC COMMENTS
Fifteen minutes set aside for public comment for items on the agenda
– 3 minutes each
- III. BOARD DEVELOPMENT
Discussion of Article-California Community College League Publication: *Budget Basics*
- IV. PURPOSE OF MEETING
Goal Setting and Budget Workshop – No Action Expected
- V. ADJOURNMENT



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f BOARD focus

Budget Basics

Districts are faced with very difficult budget decisions as they make changes to the 2002-2003 budgets and further cuts in 2003-2004. This issue of Board Focus covers the basic fiscal knowledge that trustees need as they engage in complex fiscal discussions and weigh tough financial choices. Strong, knowledgeable boards foster public confidence in the colleges, and are a positive force for advocating for our fair share of state financing.

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- 1 Fiscal Crises & Public Confidence
- 3 What You Need to Know
- 5 Top Ten Questions
- 6 How to Get the Knowledge You Need

Fiscal Crises & Public Confidence

*Excerpts from an article by
**Vaughn Sherman &
Cindra Smith** for the
Association of Community
College Trustees*

We're in the midst of a fiscal crisis. Stock market declines and business failures have contributed to severe economic restraints. The public has lost confidence in the governments and corporate boards of directors who have failed to protect public and private funds. The resulting economic downturn is forcing legislatures and governing bodies to deal with major budget deficits. Along with colleges in 40 other states, California's community colleges are coping with significant mid-year cutbacks in 2003 and are facing further reductions next year.

Public confidence in community colleges will depend in part on how boards of trustees respond to the economic situation. Observers attributed some of the scandals that rocked the world of investment (Enron, World Com, Arthur Anderson and other major companies) to the weaknesses of corporate boards. Do those weaknesses have anything to do with the business of education? Community college boards feel they do their job when they approve the college budgets, don't they? There are sufficient regulations, audits, and other safeguards to protect public funds, aren't there? And while the cutbacks

Trustees must learn enough to know what questions to ask and to be able to understand the answers.

are severe, community colleges have survived downturns before, haven't they? Do our boards need to do more? If so, why?

Just as many corporations have discovered that continuing investment in business requires investor confidence, continuing investment in community colleges requires that the public has confidence in the administration and board. Simply having policies and approving budgets may not be enough: questions too often arise as to how knowledgeable trustees are about their fiscal policy responsibilities.

What roles do the board play in fostering public confidence in the colleges? How should boards deal with reduced funding for the colleges? How much real fiscal oversight should trustees provide to their institutions, as opposed to over-zealous inquiry or intrusion into budgetary/expense issues that are really the business of the administration? How much effort do they put into helping secure the financial stability needed for the colleges?

What Not To Do... And the Alternatives

- **Don't be timid.** While this is certainly time to budget conservatively (don't spend more money than is anticipated or budgeted, don't make high risk investments with public funds), providing outstanding services and serving the community and students require much creativity. **Do engage** in innovative thinking and planning that supports student success, increases the fiscal "pie" and questions long-standing assumptions.

- **Don't limit your thinking to the short-term.** While it may be easier to support across-the-board reductions, cut all non-personnel costs, or add certain types of classes just because they increase revenue, those actions may hurt the college in the long run. **Do re-assess** priorities, study expenditures and programs to make sure that they foster student success and achieve colleges goals, and compare the cost and benefits of all expenditure categories.

- **Don't scrutinize every item in the budget.**

Some boards feel they are being fiscally responsible by reviewing and questioning each and every item in the budget. Focusing on line items is a waste of board time. **Do set guidelines** for the budget development process and the budget itself that require that: 1) the budget is designed to accomplish college goals, 2) the income and expenditure projections are realistic, and 3) the proposed expenditures have been reviewed and approved by those with the expertise to do so.

- **Don't approve or sign every check or warrant.** Few trustees are skilled in identifying fraud or solving fiscal problems by signing or approving every expense. **Do require** a strong system of internal controls, and monitor that they are effective. This is far more likely to prevent fraud. Boards generally establish policies that define the level of contracts, major purchases, budget transfers and other financial commitments that must come to the board for approval, and delegate authority for routine approvals to administration.

- **Don't act like you suspect that your president and chief financial officer are hiding funds.** Professional skepticism is important, but sending a message of distrust hurts the college, the board, and the staff. **Do insist**, as a matter of course, that strong financial controls exist, that audits are conducted and reviewed, that financial reports are accurate and timely, and that problems are identified and addressed as quickly as possible.

- **Don't think that there is nothing you can do.** California is faced with billions of dollars in deficits—amounts that are too big to easily imagine. The complexities of budgets, accounting, and financial controls are difficult to grasp. With deficits of that magnitude and the intense political battles that will occur over tax increases and program cuts, it may seem like our voice could be lost. **Do take** the time to study and understand the fiscal situation. Engage in the joint efforts and hard work that have helped community colleges in the past, and will help in the future. Active trustees, along with students, community leaders, and college employees, can be

powerful advocates for the colleges in their communities and the state level.

How do boards provide fiscal oversight in a manner that increases public confidence in their governing role? First, you get the skills and knowledge you need to participate in fiscal policy discussions. Second, you set guidelines for budgeting and revenue enhancement that are most likely to support college goals and student success in these tough fiscal times. Third, you ensure that your board has policies that require prudent budgeting and fiscal management, and that you periodically monitor how the policies are implemented.

And last, but not least, as a board, you expect and live by high ethical standards and send a message that unethical practices in the institution will not be

tolerated. Reduced funds contribute to the tension between greater demand for the education we provide and our ability to meet the demand. It becomes easier to justify a bent rule, a regulation overlooked, when so many deserving students are standing at the door to a better economic future. But how contrary is that bending and overlooking to the standards we want to set for our communities!

Fostering public confidence should be a part of everything trustees do. If colleges are to continue growing in excellence and delivery of education, they must have the confidence of our communities. With the current bad press about investor confidence and plummeting funds, it behooves trustees and institutions to assure that their ethics in general, and their fiscal oversight in particular, are beyond reproach.

Your Budget Advocacy Role

Ensuring state support for better community colleges is everyone's job. Visit the League's Legislative website, www.ccleague.org/leginfo. Register to receive up-to-date information about the issues and what you can do by clicking on the "register" button on the right of the web page for

What You Need to Know: A Checklist of Questions

California's community colleges are complex organizations, and budgets, financial reports, and accounting rules can be daunting. Most trustees do not have a background in finance or accounting; nonetheless they must approve fiscal policy and monitor the fiscal strength of the district. They must know basic fiscal concepts, understand budgets and financial reports, and evaluate internal controls and audits. They must learn enough to know what questions to ask and to be able to understand the answers.

State Budget Allocations and Constraints

- Do you have a basic understanding of how state budget allocations to districts are determined? Are you aware of the implications of Proposition 98 guarantees?
- Do you understand how your district's allocation is affected by prior year revenues, COLA, equalization, and enrollment patterns?
- Are you aware of and do you understand the implications of categorical funding and other state funds that are targeted for a specific purpose?

- Do you understand the "50% law" and the "full time faculty obligation regulations" and their impact on institutional budgeting?

District Budget Development and Approval

- Does board policy require an appropriate level of involvement by administrators, faculty, staff, and students in the budget development process?
- Is your board aware of and has it discussed the planning assumptions on which the budget is based?
- Do you understand the projected revenues and resources in the budget? Are the projections based on reasonable assumptions? Is it clear what is generated by student fees, property taxes, state funds, federal funds, grants, donations, and other resources?
- Does the board have policy guidelines for budget allocations? For instance, are mission priorities reflected in the overall allocations? If your board has established "target percentages" for personnel, reserves, new initiatives, etc., have the targets been met?
- Do you understand the expenditure categories?

Are the projected expenditures realistic given past history and probable influences on expenditures? Are the proportion of funds dedicated to personnel, maintenance, supplies, and other major categories appropriate? Do they meet the 50% law and make progress toward the full time faculty obligation?

- Are the “ending balance” or unrestricted reserves sufficient to meet unexpected needs?
- Can you determine:
 - The level of debt;
 - Level of income compared to expenditures;
 - That cash flow is sufficient to meet expenses?

Long-range Planning

- Does your board discuss the implications of making long-term commitments, such as:
 - employee union contracts, including retirement and health benefits,
 - building and upgrade projects,
 - new programs,
 - indebtedness,
 - multi-year contracts, etc.?
- Has your board explored and does it understand the long-range impact of:
 - State and regional economic trends
 - Enrollment projections and trends
 - Facility and maintenance needs
 - Technology and equipment?
- Are you sufficiently confident that revenues will be available to cover projected financial commitments?

Fiscal Management

- Does your board have clear policy guidelines for fiscal and asset management?
- Does your board receive quarterly financial statements? Do you understand them? Do the statements provide a clear picture of the fiscal condition of the institution? Are they timely?
- Does the institution have sufficient “cash” on hand?
- Does the institution have sufficient internal controls or an internal audit system? Does management follow-up on potential problems?
- Are you assured that:
 - Funds allocated to specific purposes or that are

restricted are not commingled or transferred without approvals required by board policy and law?

- Deferral of payments and other ways of spreading expenses over a period of time are appropriate and do not commit the organization to liabilities that it cannot meet? Do you understand the payment schedules?

Understanding Audits

- Districts are required to have an annual audit conducted by an external firm.
- Do you understand the purposes of financial audits?
 - Does your board help develop the request for proposals and select the auditing firm? Does the firm report to the board?
 - Do you understand the concept of “generally accepted auditing principles” and other government standards used to evaluate the soundness of public institutions? Federal standards are set by the Governmental Accounting Standards Board; state standards are contained in the California Community Colleges’ Budget and Accounting Manual.
 - If your board has an audit or finance committee, do you ensure that committee reports on the audit are discussed thoroughly by the entire board?

Investments

- Does your board have an investment policy that defines an appropriate level of risk and reflects other investment values of your board?
- Are you confident that college funds are invested securely and appropriately?

Accountability and Reports

- Are fiscal reports required by state and federal agencies accurate and filed in a timely manner? Does your board review the reports when required? When you are asked to approve the reports, do you understand them well enough to approve them?

Foundation and Gifts

- Is your board confident that gifts are accounted

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Are you willing to ask for clarification when something doesn’t make sense?

Top Ten Fiscal Questions



James Gray

Desert Community College District trustees and President Dr. Maria Sheehan developed this list of “top ten” questions that boards should ask when discussing the budget.

1. How are we covering the current year's operations, given mid-year cuts?

Due to the state's huge fiscal deficit, the Governor is proposing mid-year cuts to all publicly funded programs and further reductions to the 2003-2004 budget. The League provides regular updates to districts.

2. What total budget deficit are we anticipating for next year? What are the plans for dealing with the deficit?

Many districts will face deficits this year and next due to reduced state funding. Boards should regularly discuss the size of the deficit and strategies to reduce it.

3. How is our growth factor established and funded? What are the projected growth and deficit factors for next year?

The state provides a growth factor each year based on certain demographic data. Historically, the growth factor has not been fully funded, and it is possible that it will be further reduced. Districts use their best guess in budgeting because the actual growth rate isn't known until well after the fiscal year had ended.

4. What is the plan to maintain the reserve?

Boards and CEOs usually set a target percentage for the general reserve. 5% is considered prudent. Maintaining that percentage is part of budget planning.

5. What was the percentage increase in health benefits over the last three years, and what is the projected increase for next year? What plans exist to contain the cost of health benefits?

The board, CEO, and college employees must all be informed about the trends and projections for health and retirement benefits costs. Sizable increases are projected, which have a

major impact on the college budget. The institution's budget planning process will make recommendations, which may need to be discussed with bargaining groups

6. How have we addressed the future liability to fund health benefits for retirees?

Boards must be aware of all future college liabilities. Districts must have a plan to fund or have establish special accounts to cover retiree health benefits and other future commitments.

7. Where are we with respect to the 50% law?

There is a legal requirement to spend 50% of the unrestricted general fund on instructional salaries and benefits. Non-teaching faculty do not count toward this figure. There are many debatable issues as to the expenditures that should be charged to the non-instructional side of the equation.

8. How are we impacted this year by the Full Time Obligation to employ a minimum number of full-time faculty annually?

Districts are required by law and regulation to hire a certain number of full-time faculty in order to make progress toward the 75/25 ratio of hours taught by full-time to part-time faculty. The number is established by the Chancellor's Office, the requirement could be suspended if the colleges receive insufficient funds.

9. How are we managing the general fund restricted accounts to assist us during the tough budget years ahead?

For the most part, auxiliary accounts have restricted uses, but how they figure into the total planning effort is important to understand. Many restricted funds are self-sustaining, a few may be a source of revenue.

10. How will we approach layoffs, if they become necessary in these tough times?



Dr. Maria Sheehan



*Published to provide
locally-elected trustees
and chief executives with
information and strategies for
effective boardsmanship*

David L. Viar
EXECUTIVE DIRECTOR

Cindra J. Smith
EDITOR

916.444-8641
Fax 916.444-2954
www.ccleague.org

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for and used appropriately?

- Is your board aware of how the foundation is spending its money? Does the foundation comply with related laws and board policy?
- Are you assured that its required financial reports are filed in a timely manner?

Monitoring

□ How much responsibility for financial monitoring are you willing to delegate to the CEO and/or to a subcommittee of the board? Are you willing to:

- Ask tough questions;
- Ask "stupid" questions;
- Ask for clarification when something doesn't make sense;
- Do the work necessary to learn how to evaluate budget reports, quarterly financials, and the audit?

How to Get the Knowledge You Need

- Arrange, prepare for and engage in board study sessions on the budget and other fiscal operations conducted by your CEO, fiscal officers, and perhaps audit and investment experts.
- Arrange to meet individually with the chief executive officer, chief business officer, and others to learn about general accounting principles, basic fiscal management standards, and how to read budget summaries, financial reports and audits.
- Attend sessions on fiscal policy responsibilities offered at the Trustee Orientation Workshop and other conferences sponsored by the League, ACCT and AGB.
- Study resources on fiscal matters, including the *Trustee Handbook and Different Jobs, Different Tasks: Board and CEO Responsibilities* (available from the League and on the website, www.ccleague.org).

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Hartnell Community College District
Fiscal 2009-2010 Budget

	2008-2009 Projection	2009-2010 Tentative Budget	
Revenue			
Apportionment			
Basic allocation	3,598,340	3,598,340	
Credit	29,999,941	30,992,325	
Noncredit	38,429	45,457	
Subtotal	33,636,710	34,636,122	
Restoration	1,742,097	-	
Growth	628,026	-	
Subtotal	2,370,123	-	
mid-year cut	(471,971)	(2,383,720)	
categorical programs	(657,707)	-	
property tax shortfall	(260,563)	(722,272)	
growth	(628,026)	-	
Total apportionment	33,988,566	31,530,130	31,530,130
Other revenue			
Other federal revenue	13,629	12,000	12,000
Other state revenue	1,017,649	931,577 (1)	931,577
Other local revenue	957,000	408,000 (2)	408,000
Interfund transfers	469,275	350,000 (3)	350,000
Total revenue	36,446,119	33,231,707	33,231,707
Expenses			
Salaries and benefits			
Academic salaries	13,700,000	13,866,059	
Classified salaries	7,300,000	7,128,448	
Fringe benefits	7,200,000	8,092,211	
Total salaries and benefits	28,200,000	29,086,718	29,086,718
Cuts to salaries and benefits			(3,300,000)
Other operating expenses	8,400,000	9,081,282	9,081,282
Capital	100,000		
Contingency			
Total expenses	36,700,000	38,168,000 (4)	34,868,000
Net surplus/(deficit)	(253,881)	(4,936,293)	(1,636,293)
Unrestricted general fund reserve:			
Beginning balance	2,946,704	2,692,823	2,692,823
Ending balance	2,692,823	(2,243,470)	1,056,530
Reserve percentage	7.34%	-5.88%	3.03%

Notes:

- (1) The decrease in other state revenue is due to the decrease from the state for enrollment fee administration, apprenticeship allowance, and part-time faculty parity.
- (2) The decrease in other local revenue is primarily due to the reclassification of the Salinas Valley Memorial Hospital grant from unrestricted to restricted. It also assumes a decrease in facility rental and no miscellaneous revenue.
- (3) Interfund transfers include indirect cost recovery on grants and a \$100,000 transfer from the Bookstore fund.
- (4) Assume total expenses increase 4.0% from 2008-2009 to 2009-2010.

Hartnell Community College District
Fiscal Year 2009-2010 Tentative Budget
Summary of Other Funds

	Revenue	Expenses	Net	Beginning Reserve (1)	Ending Reserve (contingency)	
Restricted General Fund	12,118,454	12,118,454	-	831,817	831,817	
Bookstore	171,000	115,000	56,000	1,121,652	1,177,652	
Child Development	638,444	638,444	-	189,617	189,617	
Capital Outlay Projects	25,000	100,000	(75,000)	175,018	100,018	
Scheduled Maintenance	-	-	-	-	-	2
Property Acquisition	375,000	375,000	-	2,998,054	2,998,054	
Hartnell Bond Projects	38,000,000	16,500,000	21,500,000	39,584,783	61,084,783	3
Cafeteria	738,485	734,097	4,388	452,792	457,180	
Self-Insurance	-	250,000	(250,000)	959,798	709,798	
Retiree Health Benefits	-	-	-	1,266,075	1,266,075	
Associated Student Body	60,000	17,000	43,000	554,724	597,724	
Scholarship, Loan, and Trust	-	3,000	(3,000)	184,267	181,267	
Intercollegiate Athletic	20,000	55,000	(35,000)	84,123	49,123	
Capital Assets	50,000,000	3,500,000	46,500,000	80,702,809	127,202,809	4

Assumptions

- 1 The beginning reserve balance equals the ending balance at June 30, 2009 as published in the 2008-2009 adopted budget. The exceptions are the Hartnell Bond Projects fund and the Capital Assets fund. The ending balance of the bond projects fund includes issuance of Series C bonds of \$23,000,000 before June 30, 2009. The beginning balance of the capital assets fund does not include the CALL building because the CALL building is expected to come online in 2009-2010 rather than 2008-2009.
- 2 The budget assumes that all state funds allocated for the Center for Applied Technology building on the Alisal campus will be expended by June 30, 2009.
- 3 The budget for the Hartnell Bond Projects fund assumes issuance of Series D bonds of \$38,000,000 after July 1, 2009. The budget assumes that we fully spend the remaining funds from Series B. The amount spent from the bond fund will depend upon reimbursement from the state. The budget assumes the state will reimburse for all claims submitted.
- 4 The budget assumes that the Center for Assessment and Lifelong Learning (CALL) building and the Center for Applied Technology (CAT) building will be brought into service in 2009-2010. Other projects will either be brought into service in 2009-2010 or will be considered construction-in-progress. Additions to the capital assets fund are shown in the revenue column.

Hartnell Community College District
Categorical Funding Cuts

Categorical Programs	2008-2009	2008-2009		2009-2010		Notes
	Amount Certified	15% Cuts	Remaining After Cuts	60% Cuts	Remaining After Cuts	
Basic Skills	100,000	(15,000)	85,000	(60,000)	40,000	1
Student Financial Aid Administration	283,446		283,446		283,446	2, 3
EOPS	799,456	(119,918)	679,538	(479,674)	319,782	4
CARE	170,714	(25,607)	145,107	(102,428)	68,286	5
DSPS	620,644	(93,097)	527,547	(372,386)	248,258	6
CalWORKs	325,308		325,308		325,308	2, 7
Matriculation	553,622	(83,043)	470,579	(332,173)	221,449	8
Faculty & Staff Diversity	11,657	(1,749)	9,908	(6,994)	4,663	9
Telecommunications	36,036		36,036		36,036	2, 10
Instructional Equipment & Library	100,000	(15,000)	85,000	(60,000)	40,000	11
Scheduled Maintenance	100,000	(15,000)	85,000	(60,000)	40,000	12
Economic Development	738,109	(110,716)	627,393	(442,865)	295,244	13
Career Technical Education	769,700	(115,455)	654,245	(461,820)	307,880	14
Childcare Tax Bailout	72,517	(10,878)	61,639	(43,510)	29,007	15
Transfer & Articulation	4,000	(600)	3,400	(2,400)	1,600	16
Subtotal restricted funds	4,685,209	(606,063)	4,079,146	(2,424,251)	2,260,958	
Enrollment Fee Admin (2%)	21,311	(3,197)	18,114	(12,787)	8,524	17
Apprentice Allowance	39,925	(5,989)	33,936	(23,955)	15,970	18
Part-Time Faculty	283,058	(42,459)	240,599	(169,835)	113,223	19
Total	5,029,503	(657,707)	4,371,796	(2,630,828)	2,398,675	

Notes:

1. The Basic Skills Initiative is an effort designed to assist the underprepared student to attain the basic skills needed to succeed in college-level work.
2. At this time there are no cuts proposed for these programs.
3. Funds for student financial aid administration support the financial aid office.
4. EOPS offers academic and support counseling, financial aid and other support services for students handicapped by language, social, economic and educational disadvantages. EOPS - Extended Opportunity Programs and Services
5. CARE provides educational support services geared toward the welfare recipient who desires job-relevant education to break the dependency cycle. CARE - Cooperative Agencies Resources for Education
6. DSPS provides support services, specialized instruction, and educational accommodations to students with disabilities so that they can participate as fully and benefit as equitably from the college experience as their non-disabled peers. DSPS - Disabled Students Programs and Services
7. CalWORKs funds are for the purpose of assisting welfare recipient students and those in transition off of welfare to achieve long-term self-sufficiency through coordinated student services including: work study, job placement, child care, coordination, curriculum development and redesign, and under certain conditions post-employment skills training, and instructional services. CalWORKs - California Work Opportunities and Responsibility to Kids
8. Matriculation funds help students define and attain their educational goals through admissions, assessment, orientation, counseling and advising, student follow-up, coordination and training, research and evaluation, and prerequisite implementation.
9. Faculty and staff diversity funds are used for promoting equal employment opportunities.
10. Telecommunications funds on-going library electronic resources, data and video network connections, and statewide technology projects and services, such as CCC Confer, CCCApply, and CCCTran.
11. Instructional equipment and library materials are used for classroom demonstration, student evaluation, or in the preparation of learning materials in an instructional program.
12. Scheduled maintenance funds are to be used for non-recurring repair, maintenance, or replacement of the college's infrastructure or building component.
13. The college has four grants in this category: linking after school programs, sustainable construction, agriculture safety, and business assistance center.
14. The CTE funds support two grants with regional occupational centers. One grant will expand career technical educational opportunities for middle and high school students. The other grant will link economic development initiatives and consortia composed of community colleges, high schools, and regional occupational centers and programs.
15. These funds are to be used solely for direct operating expenses of on-campus child care and development centers.
16. Transfer funds help prepare students for transfer to a four-year college or university.
17. These funds represent that portion of in-state enrollment fees that are retained by the district.
18. The apprentice allowance funds the electrical apprenticeship program with the IBEW in Castroville.
19. The part-time faculty allocation funds the parity hourly rate for adjunct faculty.