

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

April 7, 2021

Lizette Navarette, Vice Chancellor of College Finance and Facilities Planning
California Community Colleges Chancellor's Office
1102 Q Street
Sacramento, CA 95811

Dear Vice Chancellor Navarette:

At the request of the Chancellor's Office, the Fiscal Crisis and Management Assistance Team (FCMAT) reviewed the City College of San Francisco's (CCSF's) fiscal status. To do so, FCMAT reviewed the June 30, 2020 financial statement issued by Eide Bailly on February 28, 2021 as well as other financial data related to the 2019-20 fiscal year. Although 2020-21 financial data is more current, the year is not yet complete and because of COVID-19 the data is not sufficiently comparable to help determine trends.

City College of San Francisco continues to face fiscal challenges, as noted in prior reports FCMAT has issued. Though the college district has experienced year over year enrollment declines, it has not adjusted staffing and other expenditure categories to offset the decline in revenues. The district has maintained staffing expenses that exceed estimated revenue, thus creating unsustainable salary and benefit costs that result in ongoing deficit spending. As noted in the 2019-20 independent audit, the district has had recurring deficit spending and does not meet minimum fund balance requirements, raising substantial doubt about its ability to continue as a going concern.

Each California community college district has the flexibility to determine the best way to serve students as long as it follows laws and regulations, meets accreditation standards, and establishes best practices. In addition to following these requirements, elected boards of trustees of each district have a fiduciary duty to ensure a district can meet the financial obligation its decisions create. It is critical that the district understand the importance of implementing the operational standards and best practices of the California community college system to ensure that its unrestricted general fund will be in balance and that funds will be available for staffing and operational needs districtwide. City College of San Francisco is not meeting the financial obligations its decisions have created, as evidenced by the district's financial reports.

A review of several Accrediting Commission for Community and Junior Colleges (ACCJC) reports, independent audits and FCMAT reports indicates that CCSF has unique arrangements and processes for delivering education to the community. Unfortunately these include excess staffing, excess learning sites, and lack of internal controls. As a result, it can no longer fulfill its commitments to its staff, faculty, administration and, most important, its students while also remaining solvent. This is evidenced by the following:

- Structural deficit spending
- Borrowing from other funds to balance the prior year books
- Borrowing from other funds to have a current year fund balance (yet still not have sufficient balance to meet the required minimum 5% reserve)
- 35% enrollment decline in eight years

- Spending more than the statewide average on salaries and benefits
- Exceeding the faculty obligation number (FON) by a significant amount (double)
- Not meeting classroom efficiency standards
- No plan to repay funds borrowed from its other post-employment benefits (OPEB) account
- No plan to reduce costs when its CCSF special statutory restoration protection ends at the end of the 2025-26 fiscal year and significant revenue is eliminated from enrollment decline

California community colleges are funded mainly based on the number of full-time equivalent students (FTES) served. As enrollment increases, a college may need to increase personnel to serve those students. As enrollment declines, a college will need to decrease the number of employees proportionately or fiscal challenges will occur. This is a fundamental operational standard and best practice that every district needs to follow if it intends to remain fiscally sound.

During the 2012-13 fiscal year, enrollment at CCSF was 32,600 FTES. In 2019-20 enrollment was less than 20,000 FTES, a reduction of more than 35% compared to 2012-13. FCMAT did not perform a detailed staffing analysis but recommends that an analysis be done at CCSF to determine whether the number of employees has been decreased proportionately based on the 35% decrease in FTES.

Correctly sizing its staffing for all employees will clearly be the largest factor in improving CCSF's fiscal situation. In 2019-20, 91.5% of CCSF's unrestricted general fund expenses were for employee salaries, wages and benefits, which is significantly higher than the statewide average of 88.8%.

In CCSF's case, the district borrowed \$10,200,000 from its OPEB fund to balance its budget, so the actual percentage of compensation to ongoing revenues is closer to 98%. If the district's CCSF special statutory restoration protection (money provided for a limited time to offset funding lost due to decline in enrollment from 2012-13 to 2019-20) is removed from the calculation, CCSF would not be able to meet its payroll obligations. The number of students served is the single most important data point for determining revenue, and thus should be used to determine staffing and other expenditure levels. This does not appear to be occurring at CCSF. City College of San Francisco's special statutory restoration protection is currently set to expire at the end of 2025-26. Unless CCSF makes significant budget adjustments before that occurs, insolvency is certain.

Several laws, regulations and industrywide best practices have been established to help community colleges follow the operational standards and best practices of the California community college system. The guidelines help districts balance the need to provide services with an ability to operate within the funding framework of the community college system.

To meet the financial obligations of its district, a college must meet certain classroom efficiency standards. The chief instructional officer's (CIO's) handbook clearly articulates these guidelines. City College of San Francisco is currently not following these guidelines, as evidenced by the number of student contact hours for each full-time equivalent faculty (FTEF) member. The finding in the June 30, 2020 independent audit report related to load banking and lack of internal controls highlights the need to improve classroom efficiency and scheduling procedures. City College of San Francisco's decision to continue not to follow these guidelines is creating classroom expenses far greater than the California community college standard. In turn, these additional costs decrease the funding available for support services, scheduled maintenance, planning, capital outlay and other essential activities throughout CCSF.

All community college districts must maintain their FON in accordance with Education Code Section 87482.6 and California Code of Regulations (CCR) Title 5 Section 51025. This is the number of full-time faculty a district is required to employ each fall, adjusted for the lower of a) projected fundable growth at the

time of budget enactment, or b) the actual percentage change in funded credit FTES from the prior year. Maintaining a FON so it stays within two to three percent of the approved amount meets this standard. A district that has far more faculty than its published FON is putting enormous strain on its fiscal viability because it is spending much more on faculty than required, leaving fewer resources for operational needs and other priorities.

The state publishes the FON for California community colleges annually. The FON is tied to the number of FTES the district served in the prior year. The FON is published to help districts identify how many full-time faculty they should employ to properly and adequately serve the student population while remaining fiscally responsible. If a district falls below the FON, the penalty as of fall 2020 was \$82,754 per FTEF below the minimum. Although there is no actual penalty for districts that exceed the FON, applying the same concept means that each contract faculty member in excess of the FON is costing a district approximately \$82,754 per year in excess of what the community college funding model allows. Systemwide, the difference between the cost of an average contract faculty member and an FTEF consisting of adjunct teaching loads is approximately \$82,754. The amount can be different for districts that do not contribute to healthcare coverage or that pay higher than average salaries, but on average is approximately \$82,754. For a number of years CCSF has chosen not to adhere to the FON standard. For example, in the 2019-20 fiscal year the district's compliance FON was 214.1 but its actual contract faculty was 477. This is an excess of 262.9 full-time faculty, which is costing the district approximately \$21,756,026 annually based on the above average for compensation in excess of what is required by FON. This large excess cost decreases the amount available for other essential services and improvements.

To compensate for costly choices such as exceeding FON, load banking, and inefficient classroom and scheduling procedures, CCSF continues to borrow funds to balance its budget and meet its ending balance (reserve) requirements. Adding to the structural deficit, during the 2019-20 fiscal year CCSF borrowed \$21,000,000 (\$10,200,000 to close its 2019-20 financial books and \$10,800,000 to balance its 2020-21 adopted budget), fully depleting its OPEB fund. Even after borrowing these large amounts, CCSF is projecting a 1.9% ending balance for 2020-21. This is well below the 5% minimum that the ACCJC considers prudent and that the Chancellor's Office uses internally as a threshold below which a district is considered at high risk, and which is needed to ease cash flow problems, deal with unexpected cost increases and manage other fiscal uncertainties. City College of San Francisco needs to develop and follow a plan to fully repay these funds to meet the obligations to its retirees. Unfortunately, these funds will need to come from ongoing revenues, reducing the revenue available to operate the district in future years.

The district's current levels of ongoing revenues take advantage of CCSF special statutory restoration protection, giving a false sense of revenue production. Unless enrollment increases significantly (which is unlikely), the CCSF special statutory restoration protection will expire at the end of the 2025-26 fiscal year. At that time, CCSF will be funded at its actual level of production (FTES, supplemental, success). The 2019-20 final student-centered funding formula (SCFF) revenue calculation for CCSF was \$128,714,155. The district's total computational revenue in the same year was \$136,132,983. Because of the special statutory restoration protection mechanism, CCSF received \$7,418,828 more than the levels it produced. In 2020-21, the CCSF special statutory restoration protection is expected to increase to slightly less than \$10,000,000. City College of San Francisco's continuing deficit spending, the temporary nature of its CCSF special statutory restoration protection, and the requirement to repay the OPEB fund all mean that CCSF must act quickly if it wants to continue operating independently in the California community college system.

FCMAT has conducted fieldwork and studies of specified scope and produced reports for CCSF in the past at the request of the Chancellor's Office. This letter is not the result of such a request but is intended to communicate FCMAT's concerns about CCSF's fiscal condition. The current financial path is not currently sustainable and has not been so for some time. As this letter attempts to outline, numerous elements and factors are occurring simultaneously and degrading the district's fiscal situation. To correct this, the district

should develop a complete and detailed fiscal recovery plan as soon as possible, including a timeline for implementation; the plan should eliminate the structural deficit in CCSF's general fund, including repaying what has been borrowed from OPEB, making budget adjustments to offset the additional revenue received from CCSF special statutory restoration protection through 2025-26, and reestablishing at least a 5% ending fund balance.

FCMAT hopes this letter will be of help to the Chancellor's Office and to CCSF and its students. We are available for further discussion and assistance at your request.

Sincerely,

A handwritten signature in black ink that reads "Michelle Giacomini". The signature is written in a cursive, flowing style.

Michelle Giacomini
Deputy Executive Officer, FCMAT