FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

Victor Valley Community College District

Fiscal Review

April 3, 2013

Joel D. Montero
Chief Executive Officer

April 3, 2013

Christopher O'Hearn, Ph.D., President
Victor Valley College
18422 Bear Valley Road
Victorville, CA 92395

Dear President O'Hearn:

In July 2012, the Victor Valley Community College District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for a fiscal review. Specifically, the agreement stated that FCMAT would perform the following:

1. Complete a fiscal health analysis of the district using the California Community Colleges Sound Fiscal Management Self-Assessment Checklist to determine the district's current level of financial risk.

2. Develop a multi-year financial projection for the current and three subsequent years without any demonstrated adjustments based on today's economic forecast to determine the level of commitment that will be needed to sustain the College's financial solvency. This will be a financial snapshot regarding the current fiscal situation and used as the baseline for determining the level of budget reductions or revenue enhancements, if any.

3. Determine up to four California community colleges to be used for benchmark comparisons.

4. Based on benchmark colleges and VVCCD program priorities, review critical cost variances, including:

    a. Review the average class size, as determined by WSCH/FTE faculty formula.

    b. Evaluate the class schedule based on student demand.

    c. Review the faculty obligation and the amount of reassigned time appropriate for the enrollment, structure, and budget of the College.

    d. Compare managerial positions as reported to IPEDS, and determine whether administration is organized effectively and if staffing levels are appropriate.

    e. Evaluate classified hourly expenses as compared to those of other colleges.

    f. Determine the costs and program impacts of off-site centers and sites.

g. Review the costs of health benefits for active employees compared to those of other colleges.

h. Evaluate VVCCD for comparative analysis in terms of 50% law margins.

i. Review the unrestricted general fund match for categorical programs and levels of encroachment, if any.

j. Review FTES and determine if assignments are managed effectively and is the college maximizing its opportunities to generate additional funding.

k. Evaluate the "Faculty Workload Calculation" per the terms of the contract between VVCCD and VVC CTA team. Provide recommendations regarding the methodology of the formula and its fiscal impact on the institutional budget. Full Time Instructor Equivalent (FTIE) is a standardized measure of faculty workload. FTIE does not represent an actual number of faculty members and is a conceptual measure of faculty workload.

l. Study and identify the release time, stipends, and any additional monies earned by the faculty that is beyond the faculty's 100% work load.

5. Identify Institutional restrictions such as past practices or services that have been identified as the "VVCCD culture" of the College including but not limited to collective bargaining contracts, legal constraints including the 50% law and the Full Time Faculty Obligation (FON).

6. Develop an implementation plan, including a proposed timeline.

7. In the revenue component, the report will review:

    a. Enrollment opportunities, if any

    b. College foundation

    c. Grants and development

8. In 1996, the VVCCD invested twenty-five million dollars in a Guaranteed Investment Contract (GIC) through Anchor National Life Insurance Company. The college is requesting that the FCMAT Team review the following and provide recommendations regarding best practices for the available use of these funds.

    a. Rate structure

    b. Sources and uses

    c. Term

    d. Investment options

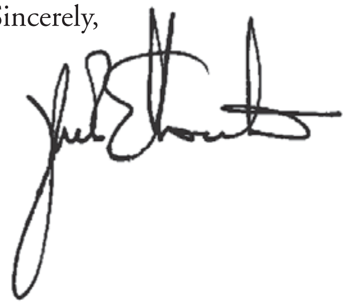
    e. Interest earnings

    f. Board resolutions

g. Quarterly, semi-annual or annual financial statements

This report contains FCMAT's findings and recommendations. FCMAT appreciates the opportunity to serve Victor Valley College and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,



Joel D. Montero

Chief Executive Officer

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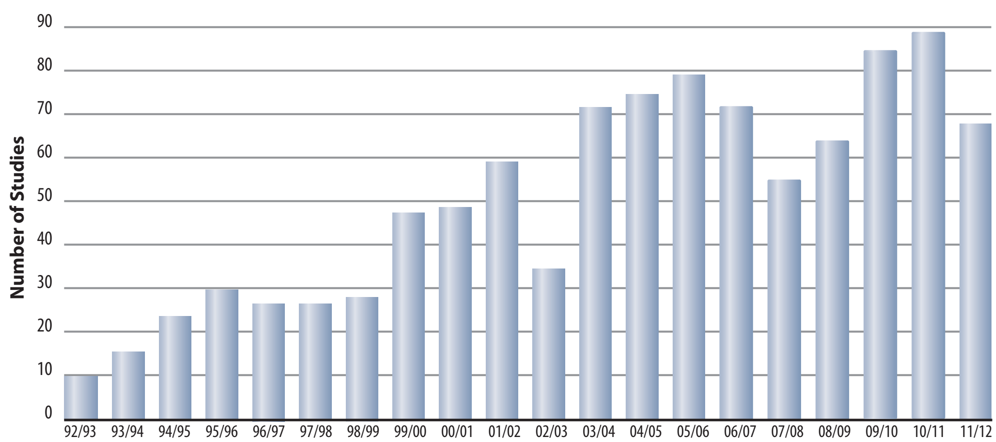
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the local education agency to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county office of education and school districts to work together locally to improve fiscal procedures and accountability standards. Assembly Bill 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform nearly 850 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

The Victor Valley Community College District serves approximately 9,000 students at its main campus, the Regional Public Safety Training Center and at some small off-site locations in leased facilities.

Because of the passage of the first local bond measure by voters since the early 1960s, many changes have occurred at the district. In November 2008, the voters approved a bond measure (Measure JJ) dedicated to eliminating debt, upgrading district infrastructure, purchasing land for a campus sight on the Westside of the Victor Valley, and funding and constructing an Regional Public Safety Training Center, which serves as a regional training facility for future firefighters, paramedics, police and correctional officers. Additionally, the district completed a one-megawatt solar power generating plant that supplies more than a third of the campus's energy.

In June 2011, before FCMAT conducted its review, the Accrediting Commission for Community and Junior Colleges visited the district and officially placed it on probation. The commission imposes probation when an institution deviates significantly from its eligibility requirements, accreditation standards, or commission policies, but not to such an extent as to warrant a show-cause order or the termination of accreditation. The college's accredited status continues during this probation period. Therefore, institutional eligibility to administer its federal financial aid program continues, and students will continue to be awarded aid according to federal guidelines. In addition, all transferable course credits that students earn during this period continue to be eligible for transfer to other two-year and four-year institutions according to existing articulation agreements.

Like many California community colleges, the Victor Valley Community College District has had declining state revenue for a number of years. The district faces financial difficulties as evidenced by its declining general fund balance and continued large operating deficits. The district's multiyear financial projection indicates that it will deficit spend by $7 million during the 2012-13 fiscal year.

In July 2012 the district requested that FCMAT review its fiscal status and outlook. The study agreement specifies that FCMAT will perform the following:

1. Complete a fiscal health analysis of the district using the California Community Colleges Sound Fiscal Management Self-Assessment Checklist to determine the district's current level of financial risk.

2. Develop a multi-year financial projection for the current and three subsequent years without any demonstrated adjustments based on today's economic forecast to determine the level of commitment that will be needed to sustain the College's financial solvency. This will be a financial snapshot regarding the current fiscal situation and used as the baseline for determining the level of budget reductions or revenue enhancements, if any.

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4. Based on benchmark colleges and VVCCD program priorities, review critical cost variances, including:

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The fiscal review performed by FCMAT was not an audit. Instead, its purpose was to evaluate the district's approach, projection and allocation its fiscal resources, and determine if the budget assumptions and methods were reasonable. FCMAT was also asked to evaluate the district's fiscal health and provide recommendations to help maintain fiscal solvency.

Study Team

The study team was composed of the following members:

Eric D. Smith, MPA
FCMAT Fiscal Intervention Specialist
Templeton, CA

John Von Flue
FCMAT Fiscal Intervention Specialist
Bakersfield, CA

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Rory Livingston*
Assistant Superintendent for Business
King City Elementary School District
King City, CA

Sheila Vickers
Vice President
School Services of California
Sacramento, CA

Margaret Rosales
FCMAT Consultant
Kingsburg, CA

*As a member of this study team, this consultant was not representing his respective employer but was working solely as an independent contractor for FCMAT.

Study Guidelines

FCMAT visited the Victor Valley Community College District on October 2 and 3, 2012 to conduct interviews, collect data and review documents. This report is the result of those activities. During fieldwork, FCMAT identified additional issues that required further research and analysis. These are noted throughout the report.

The scope of FCMAT's review included a fiscal review and analysis and a benchmark comparison of the district against four similar community college districts to provide data to help the district make decisions to sustain financial solvency and maintain recommended reserve levels. FCMAT was also asked to compare the district's administrative organizational structure with those of other comparable districts.

Executive Summary

FCMAT's review of the Victor Valley Community College District is not intended as a comprehensive audit. The scope of work is intended to determine how the district projects and allocates its fiscal resources and whether its budget assumptions and methods are reasonable. The review and assessment includes recommendations to help the district sustain its fiscal solvency.

The Accrediting Commission for Community and Junior Colleges visited the district in June 2011, before FCMAT conducted its review in October, and officially placed it on probation. The commission imposes probation when an institution deviates significantly from its eligibility requirements, accreditation standards, or commission policies, but not to such an extent as to warrant a "show cause" order or the termination of accreditation. The district had until October 15, 2012 to satisfactorily address the commission's recommendations or risk losing accreditation. The commission's report was made public in February 2013, and the decision was made to continue the college on probation.

The commission conducted its own independent review to determine accreditation status for the district, and results of that report are separate and distinct from the assessment performed by FCMAT.

The district has not developed a plan to eliminate deficit spending its general fund. Further, it has included interest earnings from the general fund reserves in prior years and in the current year budget. The district's reliance on these reserves has provided it with the opportunity to maintain current staffing and grant generous health and welfare benefits. This use of a one-time revenue source to mitigate the district's structural deficit has only served to postpone the necessity of making difficult decisions.

The board has adopted a resolution that requires the administration to develop a balanced budget by fiscal year 2015-16. However, the administration has not developed a board approved implementation plan to meet these objectives.

Findings

- The district's position control process is not adequate. Employees are hired and positions are budgeted after the fact. Similarly, there is a significant number of confirming requisitions for goods and services.
- The district's budgeted FTES is 9,500 in 2012-13, which is 264 FTES more than the level required to meet the base grant threshold and 616 FTES more than the funded level of 8,884 FTES. This would qualify the district for the mid-size college augmentation of $1 million.
- The board has made reductions in force only for the budget's restricted programs.
- The president made a commitment not to lay off any full-time faculty. However, in light of the board-adopted resolution that requires the board to adopt a balanced budget by fiscal year 2015-16, this may not be feasible and may need to be re-evaluated.
- Over the last four years, the district has reduced the number of sections offered by 900 and the number of adjunct faculty has been decreased by 90 full-time equivalents (FTEs).

- The district has reduced personnel costs through the use of retirement incentives. The district evaluates every retirement and considers whether the position needs to be eliminated through attrition.
- The district has also reduced utility expenses by implementing energy efficiency measures.

Findings and Recommendations

Fiscal Health Risk Analysis

FCMAT's Fiscal Health Risk Analysis evaluates key fiscal indicators that help a local educational agency measure its financial solvency. Failure to meet any single criterion is not necessarily an indication of a district in fiscal crisis. However, districts that exceed the risk threshold of six or more "No" responses may have cause for concern and may require some level of fiscal intervention. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain financial solvency. A district must continually update its budget as new information becomes available.

The analysis includes 17 key fiscal indicators to measure a district's potential risk. The district has completed a self-assessment using the analysis, which is included below. Based on the self-assessment, the district has recognized a number of deficient areas. FCMAT has reviewed the document and agrees with most but not all of the district's statements. FCMAT's comments and opinions regarding the document are provided in italicized text; all other comments and assessments are those of the district.

Is the district's fiscal health acceptable in the following areas?

1. Deficit Spending -Yes

- Is the district avoiding deficit spending in the current year? No
- Is the district avoiding deficit spending in the two subsequent fiscal years? No
- Has the district controlled deficit spending over the past two fiscal years? No
- Is the issue of deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions? Yes
- Has the board approved a plan to eliminate deficit spending? No (it passed a resolution, but not a plan.)

Based on the annual actuals for the unrestricted subfund of the general fund starting with 2007-08, the district generated a surplus each year through 2010-11. The district ended the 2011-12 year with $2,437,952 in deficit spending, and the 2012-13 adopted budget includes anticipated deficit spending of $11,137,952 assuming the failure of Proposition 30. Since Proposition 30 was approved by the voters, anticipated deficit spending is reduced by approximately $2.4 million, leaving a deficit of approximately $8.7 million. On July 10, 2012, the governing board adopted resolution #12-07, which assigns the superintendent/president with the authority to "…establish a policy goal of balancing the District's budget by Fiscal Year 2015-16." The district has not yet developed a multiyear plan to eliminate deficit spending.

2. Fund Balance

- Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty? Yes
- Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions? Yes

- Does the fund balance include any designated reserves for unfunded liabilities or one-time costs above the recommended reserve level? Yes

The district has maintained at least the prudent reserve level of 5% of the unrestricted general fund expenditures, over the last five years. However, the district deficit spent by $2,437,952 in the unrestricted subfund of the general fund in 2011-12, and projections indicate deficit spending in the budget year and two subsequent fiscal years, even with the passage of Proposition 30. More information is included under the "Reserve for Economic Uncertainty" fiscal indicator below.

3. Reserve for Economic Uncertainty

- Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends? No
- Does the district have additional reserves in fund 17, special reserve for noncapital projects? Yes, in fund 39
- If not, is there a plan to restore the reserve for economic uncertainties in the district's multiyear financial projection? N/A

Since 2007-08, the district has maintained at least the prudent level of reserves, which equals 5% of the total unrestricted general fund expenditures, each year in the general fund. Additional reserves are available in its other special revenue fund – fund 39. As of June 30, 2012, the balance in fund 39 is $25,126,473. Given the estimated deficit spending in each year of the district's financial projections, the district is projected to exhaust its general fund reserves early in 2014-15 even after adjusting for Proposition 30, and by the end of 2015-16, would have required a withdrawal of approximately $19 million of the available reserves in fund 39. Again, the district does not yet have a long-term plan to maintain the prudent level of reserves in the general fund.

4. Full Time Equivalent Students (FTES)

- Has the district's FTES been increasing or stable for multiple years? No
- Is the district's FTES projection updated at least semiannually? Yes
- Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? No
- Does the district analyze enrollment and average daily attendance (ADA) data? Yes
- Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes? Yes
- Has the district implemented any attendance programs to increase ADA? No
- Have approved charter schools had little or no impact on the district's student enrollment? N/A
- Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment? N/A

The district manages its enrollment and full-time equivalent student counts to ensure that it continues to qualify for the single-college district base grant of $4 million for serving more than 10,000 FTES. The funding threshold to maintain the base grant has been decreased to 9,236 FTES with the workload reductions that the community college system has been subject to since 2008-09. The base grant plus revenues per funded FTES generate a significant portion of the district's unrestricted revenues. The district's projections assume a workload reduction of 600 FTES in 2012-13 because of the *potential midyear cuts tied to the failure of Proposition 30. Because Proposition 30 passed, the district is budgeted to serve approximately 9,500 FTES in 2012-13, which is 264 FTES more than the level required to meet the base grant threshold and 616 FTES more than the funded level of 8,884 FTES.*

The district's student system cannot be used to enter and track positive attendance. The system prints a class list for each instructor, and the instructor marks attendance for each student in every class session. Each instructor keeps this list for the entire term and submits it at the end of the term so the data can be entered into the system. This means that the district does not have interim attendance data from positive attendance classes to monitor during each term, and that data collection is manual and therefore prone to human error. The district should develop an interface so instructors can record positive attendance daily, entering the data into an automated system to allow the district to monitor the total attendance during each term.

5. Interfund Borrowing

- Can the district manage its cash flow in all funds without inter-fund borrowing? No
- Is the district repaying the funds within the statutory period in accordance with Education Code section 85220? Yes

Each year, the district's board approves a resolution that authorizes interfund borrowing. Because this has been sufficient to meet cash flow needs, the district has not needed to borrow externally for short-term cash flow deficiencies.

6. Bargaining Agreements

- Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years? N/A because no COLAs were provided.
- Did the district conduct a presettlement analysis identifying an ongoing revenue source to support the agreement? No
- Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)? N/A
- Did the district address budget reductions necessary to sustain the total compensation increase including a board-adopted plan? No
- Did the superintendent and CBO certify the agreement prior to ratification? No
- Is the governing board's action consistent with the superintendent's/CBO's certification? N/A
- Did the district submit to the county office of education the AB 1200\2756 full disclosure as required? No

The district has three-year agreements with each of its three bargaining units. However, several provisions in the three collective bargaining contracts limit the district's financial flexibility, such as the following:

- *The district pays the full cost of the premium for medical, dental, vision, and life insurance at a composite rate for each full-time faculty member and classified staff member as well as for most classified staff members working at least 20 hours per week. The district has an insurance committee, but there is no financial incentive for an individual to move to the lowest-cost plan or help contain the rising cost of premiums. This year for the first time, the district and its full-time faculty bargaining unit negotiated the elimination of some higher-cost plan options* *and the ability for up to 20% of faculty members to receive cash instead of benefits. While these changes should reduce the district's future expenditures on health care premiums, adverse selection may erode those savings over time.*

- *Retirees with at least 10 years of district service are eligible to continue receiving the fully-paid benefit package for themselves and their spouse (or dependents for classified staff) until the employee (and the spouse for a faculty member) reaches Medicare eligibility. This is effective from the time of retirement, with no minimum age specified in the contracts (although the minimum age to retire under STRS is 55 and under PERS is 50).*
- *A requirement to provide regular faculty members with the first right to summer session positions with a guarantee of 85% of their annual contract rate per hour instead of the standard hourly rate for regular adjunct faculty.*
- *Minimum and maximum class sizes specified in both faculty contracts.*
- *Reassigned time for union business, faculty senate business, program directors and coordinators, and department chairs, which accumulates to a significant amount each year and in many cases, is accompanied by a stipend.*
- *Additional paid leaves beyond those required by the Education Code.*
- *"Me too" clauses in the classified employee contract tied to salary increases and benefit package improvements provided for faculty or management.*
- *A generous longevity pay schedule for classified employees.*

In the current economic and financial environment, the district needs to better manage its personnel costs to help reduce deficit spending and maintain reserves. Addressing areas of the bargaining unit agreements that hinder financial solvency or operations should be of high priority. This will help ensure that the result of collective bargaining is deliberate and financially prudent for the district and its students.

The district's negotiating teams do not include a representative from the budget office, and financial analyses of proposals being discussed at the table are often not prepared before an agreement is reached. If this lack of representation continues, the budget office should at least determine the potential impact of each proposal and communicate this information to the negotiating team before a proposal is discussed in collective bargaining.

7. General Fund

- Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? Yes
- Is the district making sure that only ongoing unrestricted dollars pay for permanent staff? Yes
- Does the budget include reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years? No
- If the district receives redevelopment revenue that is subject to AB 1290 and SB 617, has it made the required offset to the revenue limit? Yes

The district's cost for salaries and benefits as a percentage of all unrestricted expenditures was 85% for 2011-12 and is budgeted to be 85% for 2012-13. Given the level of projected deficit spending for 2012-13 and subsequent years, the district needs to pursue cost-containment in this significant portion of its budget. The narrative under the "bargaining agreements" fiscal indicator, above, and the "position control" fiscal indicator, below, provide more information.

8. Encroachment

- Is the district aware of the contributions to restricted programs in the current year? (Identify cost, programs and funds) Yes
- Does the district have a reasonable plan to address increased encroachment trends? N/A
- Does the district manage encroachment from other funds such as adult, cafeteria, child development, etc.? N/A

The district does not make contributions to restricted programs beyond what is statutorily required.

9. Management Information Systems

- Is the district's financial data accurate and timely? Yes
- Are the county and state reports filed in a timely manner? Yes
- Are key fiscal reports readily available and understandable? Yes
- Is the district on the same financial system as the county? Yes
- If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county? N/A

The district uses the financial system provided through the San Bernardino County Superintendent of Schools, which includes position control, budget development, employee benefits, purchasing, and general ledger modules. Not all of the modules are fully integrated (the narrative under the "position control" fiscal indicator, below, provides more information.)The district has developed spreadsheets for multiyear financial projections.

Not all of the district's funds are accounted for on the financial system. A personal computer-based accounting system is used for some of the district's federal funds, which are reconciled to the financial system monthly. The district's year-end closing and financial statements require reports to be run from both the financial system and the personal computer-based system. Recent audit reports include findings on the omission of funds from the district's annual financial and budget report (CCFS-311) or the funds reported differed from the information in the district's financial system. All funds should be accounted for in the district's financial system, and the system should be used to prepare the CCFS-311 each year.

10. Position Control

- Does the district maintain a reliable position control system? Yes
- Is position control integrated with payroll? Yes
- Does the district control unauthorized hiring? Yes
- Are the appropriate levels of internal controls in place between the business and personnel departments to prevent fraudulent activity? Yes
- Does the district use position control data for budget development? Yes
- Is position control reconciled against the budget during the fiscal year? No

The position control system as used in the district is not fully integrated with the budget. An initial roll of position control is used to build the budget each year, but from this point on, changes to positions do not directly drive changes to the budget. This is a manual process to detect changes in the position control system and make the appropriate budget adjustments. Position control and hiring functions are managed by the Human Resources Department.

The payroll is generated through a series of interfaces from the position control system, so it is not fully integrated. Payroll receives employee contracts from human resources to verify the data in the system and to submit it to the county office for review and audit. Because 85% of the unrestricted general fund budget is for personnel expenditures, the district should implement a process to directly link the position control system to the budget and payroll modules. Further, to ensure an appropriate segregation of duties in position control, the database should be managed by the budget office so that the hiring process is controlled separately. This should improve the alignment of the budget to position control and overall controls over this significant part of the budget.

Extra duty assignments and hourly employees are not included in position control; they are line items added to the budget after position control has been included. Extra duty assignments in particular have been difficult for the district to appropriately track and manage. The budget for hourly employees is rolled over from the prior year's actuals and then adjusted for changes in the number of sections being offered. A calculation based on the number of sections to be taught by hourly faculty should be used to determine the hourly faculty budget each year.

Instructor assignments are made in the district's student system, but there is no automated interface to the financial system. Therefore, human resources staff members manually enter instructor assignment information into the financial system. The district should consider developing an interface from the student system to the financial system to reduce staff time and the risk of errors.

11. Budget Monitoring

- Are budget revisions completed in a timely manner? Yes
- Does the district openly discuss the impact of budget revisions at the board level? Yes
- Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? No
- Has the district's long-term debt decreased from the prior fiscal year? N/A
- Has the district identified the repayment sources for long term debt or non-voter-approved debt, i.e. certificates of participation, capital leases? N/A
- Does the district's financial system have a hard-coded warning regarding insufficient funds for requisitions and purchase orders? Yes
- Does the district encumber salaries and benefits? Yes

The district uses the financial system provided through the county office for budget monitoring, and salaries and benefits from position control are encumbered in this system. The board approves the tentative budget in June each year, and revisions are made to the budget as necessary for the board to adopt the final budget in September. After this point, no formal process exists to submit revised budgets to the board for the rest of the year until the books are closed; however, budget revisions are made in the financial system all year long. The district should implement a formal process and timelines for submitting revised budgets to the board for approval during the year on a quarterly basis at a minimum. It is *essential to keep the board and all those affected informed about the district's financial condition. This should include aligning the budget to actual spending to improve the accuracy of the estimated ending balance for each year.*

12. Retiree Health Benefits

- Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements? Yes
- Does the district have a plan for addressing the retiree benefits liabilities? Yes
- Has the district conducted a re-enrollment process to identify eligible retirees? Yes

The Governmental Accounting Standards Board (GASB) released Statement No. 45, Accounting and Financial Reporting by Employers for Other Postemployment Benefits (OPEB), which creates an accrual-basis accounting requirement for recognition of post-employment retirement benefit costs. This accrual-based obligation is referred to as the annual required contribution (ARC). Many community college districts use a pay-as-you-go method, which fails to recognize or measure the cost of OPEB during the working careers of current employees.

The district complied with GASB Statements No. 43 & 45 by having an actuarial study completed to estimate the district's liability and financial disclosure requirements for OPEB. The most recent study, prepared in May 2012, identified the total liability at $8,137,692. The district has set aside $7,801,056 in a trust, which leaves an unfunded liability of $336,636.

The district has not performed a re-enrollment of plan participations to ensure that all participants are eligible for coverage. A re-enrollment should be completed as soon as practical.

13. Leadership/Stability

- Does the district have a superintendent and/or chief business official that has been with the district more than two years? Yes
- Does the governing board adopt clear and timely policies and support the administration in their implementation? Yes

The district's superintendent/president has been in that position since 2007. His two-year contract is set to expire on June 30, 2013 and is up for renewal in December 2012. The district's vice president of administrative services has been in that position since 2008, and his three-year contract is set to expire on June 30, 2014.

Many board policies have not been updated for more than 10 years. The district should update board policies and administrative regulations on a scheduled and recurring basis.

14. Charter Schools - N/A

- Has the district identified a specific employee or department to be responsible for oversight of the charter? N/A
- Has the charter school submitted the required financial reports? N/A
- Has the charter school commissioned an independent audit? N/A
- Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency? N/A

- Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter? N/A

15. Audit Report

- Did the district receive an audit report without material findings? No
- Can the audit findings be addressed without impacting the district's fiscal health? Yes
- Has the audit report been completed and presented within the statutory timeline? Yes
- Are audit findings and recommendations reviewed with the board? Yes
- Did the audit report meet both GAAP and GASB standards? Yes

The district's most recent audit report, for fiscal year 2010-11, included 15 specific areas of significant deficiency in internal controls related to federal and state categorical program compliance, preparation of the CCFS-311, student residency, and FTES reporting. There were questioned costs related to these findings, some of which the district has corrected. Substantial financial penalties could be imposed by grantor agencies if all significant deficiencies are not corrected.

The district's recent audit reports reflect significant adjustments that the auditors made to correct items in the financial records. There should be procedures to ensure the district's financial system reflects the appropriate transactions and that items are reconciled before closing the books.

16. Facilities

- Has the district passed a general obligation bond? Yes
- Has the district met the audit and reporting requirements of Proposition 39? Yes
- Is the district participating in the state's School Facilities Program? N/A
- Does the district have sufficient personnel to properly track and account for facility-related projects? Yes
- Has the district met the reporting requirements of the Williams Act? N/A
- Is the district properly accounting for the 3% routine repair and maintenance account requirement at the time of budget adoption? Yes
- If needed, does the district have surplus property that may be sold or used for lease revenues? Yes
- If needed, are there other potential statutory options? N/A
    - Joint Use: Can the district enter into a joint use agreement with some entities without declaring the property surplus and without bidding?
    - Joint Occupancy: The Education Code provides for a joint venture that can authorize private development of district property that will result in some educational use.
- Does the district have a facilities master plan that was completed or updated in the last two years? Yes

In 2008, voters approved the district's $297.5 million Proposition 39 bond measure, which was partially used to retire the 1997 certificates of participation. As of June 30, 2011, the latest year for which the financial statements and audit report have been finalized, the district had $140,795,989 in outstanding general obligation bonded debt.

17. General Ledger

- Has the district closed the general ledger (books) within the time prescribed by the county office of education? Yes
- Does the district follow a year-end closing schedule? Yes
- Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year? Yes
- Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued? Yes
- Does the district reconcile all payroll suspense accounts at the close of the fiscal year? Yes

The district's recent audit reports reflect significant adjustments that the auditors made to correct items in the general ledger, most notably in accounts payable and accounts receivable. The district should have procedures to ensure the financial system reflects the appropriate transactions and that items are reconciled before closing the books.

Position Control

The Victor Valley Community College District's position control system is paper-driven with manual requisitions initiated by the Human Resources Department and processed through the inter-district mail to the business office. An effective position control system allows a district to specifically identify each classified and certificated employee in the budget. Information on each position, including the employee occupying the position, work location, start date, salary placement, work calendar, health and welfare benefit data, annual salary or daily rate, account code, and other significant data, is stored in the system. The system provides a safeguard against filling a position that is occupied or unbudgeted or one that has not been approved by the governing board. A position control system also allows the personnel and business departments to extract the employee and financial reports necessary for decision-making and reduces the need for manual calculations and/or the use of spreadsheets. Position control should also interface with budget development processing, assisting the district with constructing the budget.

The district uses the San Bernardino County Office of Education financial system for position control, budget development, payroll and other accounting functions. However, the district's position control module is not used effectively. For example, the Human Resources Department is allowed to recruit, select, and hire personnel before a new position is established through board approval. Once the employee has been hired, the district's budget analyst is notified that the position is filled. In order for the district to prevent filling positions that are occupied, unbudgeted, or have not been approved by the governing board, this sequence of events should be reversed.

Once a position is approved by the governing board, the budget analyst should be assigned to establish new positions in position control, ensure that the correct account code or codes are attached to the position, and make certain that there are sufficient funds to pay for the position. The budget analyst should also verify these functions for replacement positions and for eliminating positions from the budget when there is a reduction in force through layoffs or attrition of personnel through retirement incentives.

Salary and benefits constitute the largest expenditure category in the district's general fund. The district is projected to spend 85% of the unrestricted general fund budget on salary and benefits for the 2012-13 fiscal year; therefore, accurately calculating and projecting these costs is the most important component in the financial projection for expenditures.

Position control is a process that incorporates all governing-board-authorized positions. A reliable position control system has well defined standards and formulas for tracking, filling, creating and deleting positions in an organization and aligns staffing with the budget and payroll systems.

The primary purpose of position control is to control costs and ensure that what is in the budget and is paid in the payroll system reflects board-authorized positions. Without position control, it would be extremely difficult and labor intensive to make decisions on staffing levels, monitor staff movements, compile demographic information and track vacant positions.

It is important for a district the size of Victor Valley to ensure the position control system operates efficiently and effectively and that there are appropriate internal controls between the Human Resources and Business departments. After the governing board adopts the budget, the position control system should be updated periodically throughout the year for changes in staffing. Staffing changes include the following and should interface with the payroll and budget systems:

1. Newly created positions
2. Vacancies
3. Resignations
4. Terminations
5. Retirements
6. Assignment, location or funding source
7. Salary placement
8. Adjustments to salary or benefits

Most of the changes above will either increase or decrease costs in the operating budget. Periodic internal audits should be conducted to compare what is in position control with the budget and payroll systems to ensure that information available for management decisions accurately reflect current staffing costs.

The governing board authorizes and establishes new positions for human resources to recruit and hire. The Business Department should prepare the calculations to support the addition (or reduction) of positions through a process that includes projections of state funding and student enrollment to support these costs. The district superintendent/president ultimately makes a recommendation to the governing board to create new positions, reduce current staffing and/or fill existing vacancies.

Several position control functions must be separated to ensure strong internal controls between departments, creating proper checks and balances. Internal controls should be designed to prevent unauthorized positions and/or staffing placements in the system. Responsibilities for the maintenance of the position control system should be segregated between the Human Resources and Business departments with key administrators involved in the process.

Proper segregation of duties is a critical component of internal controls. A sample of segregation of duties below provides a strong internal control structure for position control between the Human Resources and Business departments.

Responsibility	Task
Governing Board	Authorizes new positions or reductions in positions
Personnel Department	Input employee demographic information including: Employee name Social security number Address Salary classification Salary schedule placement Credential information Conduct annual open enrollment for employee benefits
Business Department	Assignment of budget account codes Prepare: Budget development and projections Multiyear projections Salary and benefits projections Annually update salary placement
Personnel or Business Department	Review and update employee work calendars Update employee benefits Review position control reports for accuracy and compare with budget and payroll reports Conduct periodic internal control audits
Management	Provide oversight and give guidance to department staff

Information should be updated frequently so that management can rely on position control to make staffing recommendations to the superintendent/president and governing board.

The county office is updating the existing financial operating systems. Until this process is complete, the district utilizes three software systems hosted by the county office to process financial, payroll and position control data as follows:

- Legacy is the financial system.
- EPICS is used for position control.
- Magic is used to update employee benefits.

To optimize the reliability of position control, the system should be fully integrated with payroll and budget modules and used to update the budget at various reporting periods throughout the fiscal year. Financial systems that are not integrated require employees in several departments to duplicate data entry and verify the separate systems to ensure these systems are reconciled to one another.

FCMAT has developed a Fiscal Health and Risk Analysis to help districts measure 17 key financial components. Position control is one of these component areas, and a comprehensive analysis of the position control system is included in the Fiscal Health and Risk Analysis section of this report.

The Human Resources Department manages and updates the EPICS system. Once an employee is hired, human resources staff enter the employee data into the EPICS position control system and transfer the employee information to Magic to update benefits and health insurance. Once complete, the file is transferred back to Legacy and placed in a "pending status" file in the payroll queue. Each month, the payroll manager reviews the pending status file with supporting documentation and approves the employee for payroll. Moving data from one operating system to another always raises a risk related to the validity of data imports and exports. The district should implement additional controls to validate information flowing from one system to another.

At the beginning of each fiscal year, payroll information is compared to what is in the EPICS system and rolled into budget development; however, after budget adoption, these systems are not updated through the remainder of the fiscal year. FCMAT observed that the budget is not aligned with actual payroll activity and in some cases, there are large variances where funds are budgeted without any activity, which is discussed in the next section of this report. The district should make periodic comparisons between the position control, payroll and budget systems throughout the fiscal year until the county office transfers to a new system that is fully integrated.

Because information is transferred directly to the Payroll Department from human resources, the Business Department is not involved in the process until after the fact. This is a departure from best practices and lacks appropriate internal controls between the various functions of the Business and Human Resources departments. Industry standard is to ensure that the business office verifies budget coding and adequacy of funds before additional positions are added to the budget.

Although the county office has several internal controls to monitor changes in employee status, including placing newly hired employees in the system, the district should segregate the duties between the Human Resources and Payroll departments to prevent unauthorized hiring and ensure proper internal controls prevent fraudulent activity in the system.

A large part of the budget of community colleges is traditionally devoted to hourly and summer pay. Approximately 40% of the certificated salary general fund budget is within these categories, yet no placeholders in position control account for extra duty or hourly employee obligations. The budget is rolled from the previous years' actual activity and adjusted for increases or decreases in class section offerings. Staff report difficulties in monitoring and tracking extra duty and hourly categories. The district should develop a method to include these categories in position control, monitor actual activity throughout the fiscal year and make budget adjustments accordingly.

The district uses a student accounting system to align instructor assignments with class offerings. This system does not interface with Legacy, requiring staff to manually enter the instructor assignments. The district should explore the possibility of automating this process by utilizing an interface program to reduce duplication of work and the possibility of errors with manual entry.

Recommendations

The district should:

1. Ensure that the position control system is updated periodically throughout the year for changes in staffing.
2. Perform periodic internal audits to compare what is in position control with the budget and payroll systems to ensure that the available information is accurate for management decisions.
3. Ensure that position control functions are separated to ensure strong internal controls exist between the Business and Human Resources departments. There should be proper checks and balances to prevent unauthorized positions and/or staffing placements in the system.
4. Develop a method to include extra duty and hourly categories in position control, monitor actual activity throughout the fiscal year, and make budget adjustments accordingly.
5. Explore the possibility of automating the process of aligning instructor assignments with class offerings by utilizing an interface program to reduce duplication of work and the possibility of errors with manual entry.

Multiyear Financial Projection

Multiyear financial projections (MYFPs) are an important part of the budget process. They should be produced accurately and contain the most current fiscal information available. MYFPs allow the district to project revenues and expenditures and help ensure it can meet its financial obligations in the current and three subsequent fiscal years.

FCMAT reviewed the budget assumptions utilized in the MYFP prepared by the district to ensure its validity and reviewed the performance of the district's funds over the last several years to identify trends and formulate questions about the status of accounts. This review allowed FCMAT to validate the district's general fund budget projections for the current and three subsequent fiscal years and determine any effects that other funds may have on the general fund.

Any financial forecast has inherent limitations because it is based on certain criteria and assumptions rather than on exact calculations. Limitations include issues such as the accuracy of baseline data, unpredictable timing of negotiations, unanticipated changes in enrollment trends, and changing state, federal and local economic conditions. Therefore, the budget forecasting model should be viewed as a trend based on certain criteria and assumptions rather than as a prediction of exact numbers. To maintain the most accurate and meaningful data, the projection should be updated at frequent intervals as well as when there are significant financial changes to the district's budget in current or future years. The projection should also be updated during collective bargaining negotiations to determine the fiscal effect of any potential contractual changes.

The following components of this report contain unrestricted, restricted and combined summaries for the MYFP. Subsequent sections include an explanation of the revenue and expenditure assumptions used in determining the amounts for each year. The projection includes no permanent, ongoing expenditure reductions beyond those identified in the fiscal year 2012-2013 adopted budget.

Budget Assumptions

FCMAT reviewed for reasonableness the district's budget assumptions as they relate to FTES served, funded FTES, apportionment COLAs and other miscellaneous revenue adjustments. Similarly, FCMAT reviewed the district's budget assumptions as they relate to employee step-and-column movement, health and welfare benefit costs, supplies, other operating expenses and capital outlay, to determine if they were reasonable. The following table depicts these budget assumptions used by the FCMAT study team:

FCMAT Version November 2012 Assumptions

	Proposed Budget	Projection	Projection	Projection
	2012-13	2013-14	2014-15	2015-16
REVENUES:				
FTES served	9,586.59	9,586.59	9,586.59	9,586.59
Funded FTES	8,883.50	8,883.50	8,883.50	8,883.50
Apportionment COLA	0.00%	0.00%	2.30%	2.50%
Lottery FTES	9,586.59	9,586.59	9,586.59	9,586.59
Lottery (Unrestricted) per FTES	$124.25	$124.25	$124.25	$124.25
Lottery (Restricted) per FTES	$30.00	$30.00	$30.00	$30.00
Mandated costs (continue filing claims)	$0.00	$0.00	$0.00	$0.00
All other state revenues	(see detail)	Flat	Flat	Flat
Federal revenue reductions (sequestration)	-	-8.20%	-8.20%	-8.20%
Local revenues	(see detail)	(see detail)	(see detail)	(see detail)
EXPENDITURES:				
Academic step and column increases	(included)	1.50%	1.50%	1.50%
Classified step and column increases	(included)	1.90%	1.90%	1.90%
Health and Welfare Benefits (as a % of salaries) - Unrestricted	(included)	39.80%	39.80%	39.80%
Health and Welfare Benefits (as a % of salaries) - Restricted	(included)	22.90%	22.90%	22.90%
PERS Employer Rate	11.417%	11.417%	11.417%	11.417%
Supplies and Materials	(see detail)	Flat	Flat	Flat
Other Operating Expenses and Services	(see detail)	Flat	Flat	Flat
Capital Outlay	(see detail)	Flat	Flat	Flat

Based on the review, FCMAT made several adjustments to revenue in the district's 2012-13 adopted budget. However, the most significant of these adjustments was because of the passage of Proposition 30 in the November 2012 general election. These adjustments were as follows:

Unrestricted General Fund Summary

In evaluating the MYFP, much attention is focused on the bottom line, which indicates the district's undesignated, unappropriated fund balance. If the bottom line shows a positive unappropriated fund balance, this amount may be used by the governing board and/or the chancellor to improve educational programs, increase employee compensation, improve the fund balance, fund liabilities such as retiree benefits or workers' compensation, or spend in other categories. However, if the unappropriated fund balance is negative, the deficit is the amount by which the budget must be reduced to sustain the recommended reserve levels and board-designated reserves. The MYFP should be viewed comprehensively, and the district should determine the compounding effects that using any or all of the unappropriated fund balance will have on the MYFP in the current and future years. The unappropriated balance and the corresponding compound effects can be determined clearly as the years proceed.

Unrestricted General Fund

FCMAT Version November 2012		Actual	District's Adopted Budget (assumed failure of Proposition 30)	FCMAT Proposed Budget	Projection	Projection	Projection
	Object Code	2011-12	2012-13	2012-13	2013-14	2014-15	2015-16
REVENUES:							
Federal Revenues	8100	-	-	-	-	-	-
State Revenues	8600	36,062,059	33,552,457	36,218,188	36,218,188	36,218,188	36,218,188
Local Revenues	8800	11,342,177	12,443,527	11,850,432	11,850,432	11,452,601	11,050,432
Total Revenues		47,404,236	45,995,984	48,068,620	48,068,620	47,670,789	47,268,620
EXPENDITURES:							
Academic Salaries	1000	22,756,652	22,383,596	22,512,533	22,850,221	23,192,974	23,540,869
Classified Salaries	2000	10,478,248	11,786,792	10,812,462	11,017,899	11,227,239	11,440,556
Employee Benefits	3000	9,340,130	13,625,888	13,276,325	13,479,512	13,699,245	13,922,607
Supplies and Materials	4000	701,161	740,356	740,356	740,356	740,356	740,356
Other Operating Expenses and Services	5000	5,722,262	7,570,959	7,570,959	7,570,959	7,570,959	7,570,959
Capital Outlay	6000	866,377	695,145	695,145	695,145	695,145	695,145
Total Expenditures		49,864,830	56,802,736	55,607,780	56,354,091	57,125,918	57,910,493
Excess/(Deficiency) of Revenues over Expenditures		2,460,594)	(10,806,752)	(7,539,160)	(8,285,472)	(9,455,129)	(10,641,873)
Other Financing Sources	8900	22,642	-	-	-	-	-
Other Outgo	7000	-	331,200	331,200	-	-	-
Net Increase/(Decrease) in Fund Balance		(2,437,952)	(11,137,952)	(7,870,360)	(8,285,472)	(9,455,129)	(10,641,873)
BEGINNING FUND BALANCE:							
Net Beginning Balance, July 1		14,808,728	15,578,824	15,578,824	7,708,464	(577,008)	(10,032,137)
Prior Year Adjustments		3,208,048	-	-			
Adjusted Beginning Balance		18,016,776	15,578,824	15,578,824	7,708,464	(577,008)	(10,032,137)
Ending Fund Balance, June 30		15,578,824	4,440,872	7,708,464	(577,008)	(10,032,137)	(20,674,010)
Prudent Reserve Level (5%)		2,493,242	2,856,697	2,796,949	2,817,705	2,856,296	2,895,525
Unassigned Reserves		13,085,583	1,584,175	4,911,515	(3,394,712)	(12,888,433)	(23,569,534)

Restricted General Fund

FCMAT Version November 2012		Actual	District's Adopted Budget (assumed failure of Proposition 30)	FCMAT Proposed Budget	Projection	Projection	Projection
	Object Code	2011-12	2012-13	2012-13	2013-14	2014-15	2015-16
REVENUES:							
Federal Revenues	8100	2,909,636	2,874,192	2,869,192	2,633,918	2,633,918	2,633,918
State Revenues	8600	2,626,602	2,960,526	2,873,027	2,873,027	2,873,027	2,873,027
Local Revenues	8800	1,279,660	1,546,461	1,546,461	1,546,461	1,546,461	1,546,461
Total Revenues		6,815,898	7,381,179	7,288,680	7,053,406	7,053,406	7,053,406
EXPENDITURES:							
Academic Salaries	1000	1,155,763	1,312,224	1,312,224	1,312,224	1,312,224	1,312,224
Classified Salaries	2000	2,217,071	1,874,991	1,874,991	1,874,991	1,874,991	1,874,991
Employee Benefits	3000	927,622	730,104	730,104	730,104	730,104	730,104
Supplies and Materials	4000	757,356	841,781	841,781	841,781	841,781	841,781
Other Operating Expenses and Services	5000	1,466,834	1,752,506	1,752,506	1,752,506	1,752,506	1,752,506
Capital Outlay	6000	583,557	285,130	285,130	285,130	285,130	285,130
Total Expenditures		7,108,203	6,796,736	6,796,736	6,796,736	6,796,736	6,796,736
Excess/(Deficiency) of Revenues over Expenditures		(292,305)	584,443	491,944	**256,670**	**256,670**	**256,670**
Other Financing Sources	8900	-	-	-	-	-	-
Other Outgo	7000	425,334	474,001	474,001	474,001	474,001	474,001
Net Increase/(Decrease) in Fund Balance		(717,639)	110,442	17,943	(217,331)	(217,331)	(217,331)
BEGINNING FUND BALANCE:							
Net Beginning Balance, July 1		2,393,978	1,676,339	1,676,339	1,694,282	1,476,951	1,259,620
Prior Year Adjustments		-	-	-			
Adjusted Beginning Balance		2,393,978	1,676,339	1,676,339	1,694,282	1,476,951	1,259,620
Ending Fund Balance, June 30		1,676,339	1,786,781	1,694,282	1,476,951	1,259,620	1,042,289

Total General Fund

FCMAT Version November 2012		Actual	District's Adopted Budget (assumed failure of Proposition 30)	FCMAT Proposed Budget	Projection	Projection	Projection
	Object Code	2011-12	2012-13	2012-13	2013-14	2014-15	2015-16
REVENUES:							
Federal Revenues	8100	2,909,636	2,874,192	2,869,192	2,633,918	2,633,918	2,633,918
State Revenues	8600	38,688,661	36,512,983	39,091,215	39,091,215	39,091,215	39,091,215
Local Revenues	8800	12,621,837	13,989,988	13,396,893	13,396,893	12,999,062	12,596,893
Total Revenues		54,220,134	53,377,163	55,357,300	55,122,026	54,724,195	54,322,026
EXPENDITURES:							
Academic Salaries	1000	23,912,415	23,695,820	23,824,757	24,162,445	24,505,198	24,853,093
Classified Salaries	2000	12,695,319	13,661,783	12,687,453	12,892,890	13,102,230	13,315,547
Employee Benefits	3000	10,267,752	14,355,992	14,006,429	14,209,616	14,429,349	14,652,711
Supplies and Materials	4000	1,458,517	1,582,137	1,582,137	1,582,137	1,582,137	1,582,137
Other Operating Expenses and Services	5000	7,189,096	9,323,465	9,323,465	9,323,465	9,323,465	9,323,465
Capital Outlay	6000	1,449,934	980,275	980,275	980,275	980,275	980,275
Total Expenditures		56,973,033	63,599,472	62,404,516	63,150,827	63,922,654	64,707,229
Excess/(Deficiency) of Revenues over Expenditures		(2,752,899)	(10,222,309)	(7,047,216)	(8,028,802)	(9,198,459)	(10,385,203)
Other Financing Sources	8900	22,642	-	-	-	-	-
Other Outgo	7000	425,334	805,201	805,201	474,001	474,001	474,001
Net Increase/(Decrease) in Fund Balance		(3,155,591)	(11,027,510)	(7,852,417)	(8,502,803)	(9,672,460)	(10,859,204)
BEGINNING FUND BALANCE:							
Net Beginning Balance, July 1		17,202,706	17,255,163	17,255,163	9,402,746	899,943	(8,772,517)
Prior Year Adjustments		3,208,048	-	-	-	-	-
Adjusted Beginning Balance		20,410,754	17,255,163	17,255,163	9,402,746	899,943	(8,772,517)
Ending Fund Balance, June 30		17,255,163	6,227,653	9,402,746	899,943	(8,772,517)	(19,631,721)
Prudent Reserve Level (5%)		2,493,242	2,856,697	2,796,949	2,817,705	2,856,296	2,895,525
Restricted Reserves		1,676,339	1,786,781	1,694,282	1,476,951	1,259,620	1,042,289
Unassigned Reserves		13,085,583	1,584,175	4,911,515	(3,394,712)	(12,888,433)	(23,569,534)

General Fund Salary and Benefits

The district processes four payroll cycles each month. To project the payroll and benefits to June 30, 2013, the team extracted the September payroll cycles along with year-to-date payroll activity. Data was separated by program, subprogram and object level and compared to the adopted budget. FCMAT noted several variances where budgeted dollars are not aligned with actual payroll activity, which suggests that the district does not utilize position control to build the budget by resource or at the object code level. The table below is a sample of this misalignment.

Subprogram	Object Code	Budget	Year-to-Date
4900 – Unrestricted	1300-Certificated Teachers Hourly	$2,098,951	$226,339
4900 – Unrestricted	1306-Certificated Teachers Unit of Pay	$5,300,160	$143,623
2115 – TRIO – Upward Bound	1350-Certificated Personal Services	$70,000	$0
2115 – TRIO – Upward Bound	2180-Classified I/NR Fee Based	$27,000	$20,290
2117 – TRIO –Upward Bound Math & Science	All payroll and benefit accounts	$0	$42,316
3001 – Extended Opportunity Programs/Services	1100-Teachers Regular	$127,000	$0
3001 – Extended Opportunity Programs/Services	1280-Academic – NI/Regular Counselor	$0	$26,005
3001 – Extended Opportunity Programs/Services	1283-Counselor's Summer Salary	$0	$19,786

District budgeting practices do not accurately reflect payroll and benefits by classification and do not meet best practices or industry standards. The business division should update the budget with the year-to-date activity to properly reflect the expenditure patterns by resource and object. This will give management the opportunity to make informed decisions within various categories of the budget.

Defined Healthcare Benefits and Other Postemployment Benefits

The district is a member of the Southern California Schools Employee Benefits Association, a joint powers authority. According to staff, the health insurance rate increase for 2012-2013 was projected to be 17%. Since the district does not have a cap on health insurance premiums, it will pay all increased costs. Approximately $350,000 included in total adjustments was attributable to health insurance premiums. If premiums are adjusted after the FCMAT study, this will need to be added back to the budget. The district should consider a benefit cap for negotiation reopeners.

Included in the budget is a one-time expenditure of $3.6 million that according to the adopted budget file will be used to fully fund the district's other postemployment benefits (OPEB) and vacation liability.

The district provides health care benefits to retired employees. The independent audit report dated June 30, 2011 notes that 40 retirees and 320 active employees participate in the district's defined healthcare plan. Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Other Postemployment Benefits, requires the district to disclose (or recognize) the liability for the total anticipated and projected benefit costs on the annual financial statements, but not to fully fund future obligations. However, the district is required to pay the actual cost of current benefits each year.

The most recent actuarial study issued in May 2012 shows the total accrued liability of OPEB at $8,137,692, and the district has set aside assets totaling $7,801,056 of this amount in an irrevocable trust with Futuris, leaving an unfunded actuarial accrued liability balance of $336,636.

The district should identify the exact amount necessary to fully fund the OPEB obligation and vacation liability and redirect the remaining funds back to the district's general fund ending balance.

Unrestricted Salary and Benefit Adjustments

The table below shows adjustments totaling ($1,194,956) to the unrestricted budget based on historical information and the detailed account analysis for the 2012-2013 fiscal year by object code.

Historical Data Comparison and Projection for 2012-13

		2010/11 Unaudited Actuals	2011/12 Unaudited Actuals	2012/13 Working Budget	FCMAT Projected Budget
1100.00	TEACHERS SALARY-REGULAR	9,020,290	8,211,235	8,440,661	8,313,686
1102.00	TEACHERS SAL REG/NO STRS	179,736	167,541	159,411	159,411
1103.00	TEACHERS SALARIES-SUMMER	1,454,059	1,368,002	1,733,356	1,439,437
1104.00	TEACHERS SALARIES-WINTER		22,139		25,000
1105.00	TEACHERS SALARY-DEPT CHAIRS	587,569	583,034	639,201	555,541
1108.00	TEACHERS SALARY - OTHER	700	100		0
1210.00	ADMIN SALARY-SUPT/VP	581,800	542,758	564,123	566,712
1220.00	ADMIN SALARY-DEANS	746,900	904,922	941,817	952,720
1230.00	ADMIN SALARY-OTHER	316,780	261,965	339,794	303,230
1280.00	ACADEMIC-NI/REG-COUNSELORS	667,048	620,381	619,644	618,685
1283.00	COUNSELOR'S SUMMER SALARY	104,145	63,915	0	67,898
1290.00	ACADEMIC-NI/REG-LIBRARIANS	150,472	154,934	156,484	156,484
1293.00	LIBRARIANS-SUMMER	36,873	25,435	0	52,959
1299.00	ACADEMIC RELEASE TIME	495,310	614,314	622,621	621,735
1300.00	TEACHERS SALARY-HOURLY	2,395,015	2,602,557	2,098,951	2,437,935
1303.00	ADJUNCT SUMMER SALARY	18,810	3,410	4,210	0
1306.00	TEACHERS SALARIES-UNIT OF PAY	6,198,772	6,006,112	5,300,160	5,461,888
1345.00	ACADEMIC-I/NR-HEAD COACHES	72,000	74,350	197,075	109,115
1350.00	PERSONAL SERVICES	126,523	42,499	0	11,250
1375.00	ADJUNCT DOCTORAL STIPEND	38,860	46,975	0	2,475
1408.00	FACULTY HIRING CMTE-INSTR		2,530	0	2,400
1440.00	FACILITATORS: P/T ASSIGNMENT	68,901	145,585	142,928	339,405
1460.00	NI-ACCOMPANISTS			2,420	0
1461.00	NON-INSTRUCTIONAL OTHER		30,842	275,000	49,881
1480.00	ACADEMIC-NI/NR-COUNSELORS	97,576	135,291	59,840	156,998
1483.00	HOURLY COUNSELING-SUMMER	32,588	4,840	65,000	0
1490.00	ACADEMIC-NI/NR-LIBRARIANS	95,123	93,555	20,900	104,665
1499.00	ADJUNCT RELEASE TIME	27,500	27,431		3,025
1 Total		**23,513,350**	**22,756,652**	**22,383,596**	**22,512,533**
2150.00	CLASSIFIED-NI/REG/ADMIN	1,960,172	2,095,559	2,514,096	2,080,246
2180.00	CLASSIFIED-NI/REG	6,395,421	6,013,897	6,886,439	6,283,062
2190.00	CLASSIFIED SPECIALS-NONINSTR	27,821	55,740	54,000	0
2194.00	OUT-OF-CLASS PAY: CLASSIFIED	0	0	8,537	11,739
2200.00	CLASS SALS/INSTRUCTIONAL	1,626,114	1,495,693	1,553,716	1,545,347
2282.00	BOARD COMPENSATION	13,280	0		0
2290.00	CLASSIFIED SPECIAL - INSTR	89,123	48,094	81,000	74,637
2380.00	CLASS-NI/NR-STUDENTS		0	2,100	1,488
2382.00	BOARD COMPENSATION		23,200	14,400	14,400
2390.00	CLASS-SHORT TERM/TEMP/NI	14,101	25,302	23,962	62,144
2391.00	CLASS-REG/FT-OVERTIME	77,291	190,376	145,000	154,822
2394.00	CLASS SUBS/NI	147,814	261,279	200,000	221,933
2445.00	CLASS-I/NR-ASST COACHES	75,500	78,600	81,100	125,872
2446.00	PROFESSIONAL EXPERT-CLASSIFIED	86,291	76,388	78,142	85,595
2480.00	CLASS-I/NR-STUDENTS	97,893	90,440	124,038	100,740
2490.00	CLASS-SHORT TERM/TEMP/INST	4,098	3,843	5,262	4,000
2491.00	INSTRUCTIONAL OVERTIME	22			0
2494.00	CLASS SUBS/INST	657	19,839	15,000	46,438
2 Total		**10,615,598**	**10,478,250**	**11,786,792**	**10,812,462**
3110.00	STATE TCHRS RTMT SYSTEM	1,661,838	1,597,477	1,892,388	1,841,871
3210.00	PUBLIC EMPLOYEES RET SYSTEM	1,123,546	1,091,879	1,210,960	1,224,337
3220.00	PERS NON-INSTRUCTIONAL	(562)	(368)		-
3310.00	OASDI	644,676	634,790	657,222	666,942
3315.00	MEDICARE 1.45%	471,955	462,507	466,236	480,322
3330.00	MEDICARE - TEACHERS/AIDES		(232)		-
3350.00	PUBLIC AGENCY RET SYSTEM	94,881	94,813	828	7,317
3410.00	HEALTH AND WELFARE	3,882,874	4,206,955	4,714,105	4,364,826
3440.00	COBRA INSURANCE	(4,963)	(3,596)	0	6,202
3510.00	STATE UNEMPLOYMENT INSURANC	256,430	522,628	365,086	365,916
3528.00	SUI: ADD'L PAYMENTS TO EDD		47,970	40,000	-
3610.00	WORKERS COMPENSATION	657,150	679,668	678,563	715,693
3920.00	OTHER BENEFITS-NON INSTRUCTION		5,640	0	1,410
3939.00	OTHER BENEFITS			3,600,500	3,600,500
3999.00				0	990
3 Total		**8,787,824**	**9,340,130**	**13,625,888**	**13,276,325**
Grand Total		**42,916,772**	**42,575,032**	**47,796,276**	**46,601,320**
	Adjustment Summary				
	Certificated				$ 128,937
	Classified				$974,33

Program Analysis

The analysis by program found that the district budgeted $8,605,420 in program #4900 with year-to-date expenditures totaling only $20,000. During fieldwork, FCMAT could not identify a purpose for this program. However, subsequent discussions with the district found that program code 4900 is used to account for the salaries of adjunct faculty for interdisciplinary studies in one place. The district should modify this holding account by redirecting unspent budget amounts to the proper account codes. The breakdown by category is as follows:

Program 4900 Analysis
As of October 9, 2012

Classification	Total Budgeted	Year-to-Date Expenditures
Certificated Salary	$7,418,604	$0
Classified Salary	$16,500	$0
Benefits	$1,170,316	$20,000
Total	$8,605,420	$20,000

Restricted Programs

Restricted programs should balance to the total appropriation each year. Each individual program has specific requirements as a condition of funding; therefore, FCMAT does not realign staffing. Instead, the team reviewed the current activity and potential projection to the end of the fiscal year and noted significant variances. The following programs are likely to experience negative ending balances without further correction:

- 2115 – TRIO: Upward Bound
- 2117 – TRIO: Upward Bound Math & Science
- 3001 – Extended Opportunity Programs & Services
- 4090 – Auxiliary Services/BKSTR/ASB DIR Billing
- 4091 – Foundation Billing
- 4131 – ASE Cert Mechanic Corrections
- 4132 – Waste REMVL/Recycle Corrections

Programs established for payment purposes to be billed back to other organizations such as the associated student body should have a contra budget established to track amounts due the district. This is a negative budget account established as an offset to record the collection of payments made to support expenditures the district has made on behalf of the organization. Instead of abating the expense account directly, the contra budget is established in a separate account code to receive the payment.

Supplies and Materials (Object Code 4000)

This portion of the budget reflects planned expenditures for materials, supplies, and software for both instructional and noninstructional use.

Unrestricted

Based on FCMAT's analysis, the elements that comprise planned expenditures for this budget line item from unrestricted resources in the district's 2012-13 adopted budget appear reasonable. No adjustments are proposed to this portion of the budget, and expenditures are reasonably predicted to be flat in the MYFP's out years.

Restricted

The district's 2012-13 adopted budget shows an increase of $84,425 from the 2011-12 actuals, which reflects amounts carried over from 2011-12 and an expected increase in grant funds to spend for 2012-13. The district's adopted budget appears reasonable, so no adjustments are proposed to this line item. Expenditures are reasonably predicted to be flat in the MYFP's out years.

Other Operating Expenditures and Services (Object Code 5000)

Planned expenditures for contracted services, conferences and travel, utilities, fuel, insurance, legal fees, licensing fees, and other similar items are included in this line item of the budget.

Unrestricted

The district's 2012-13 adopted budget showed an increase of $1,848,697 from the 2011-12 actuals on the unrestricted part of the general fund. The district reported that this difference is primarily because unrestricted expenditures were transferred to another fund during 2011-12 using one-time sources in that fund. Therefore, the planned expenditures in the 2012-13 adopted budget reflect the normal level of expenditures in this line item. No adjustments are proposed to this portion of the budget, and expenditures are reasonably predicted to be flat in the MYFP's out years.

Restricted

The district's 2012-13 adopted budget shows an increase of $285,672 from the 2011-12 actuals, which reflects amounts carried over from 2011-12 and an expected increase in grant funds to spend for 2012-13. The district's adopted budget appears reasonable, so no adjustments are proposed to this line item. Expenditures are reasonably predicted to be flat in the MYFP's out years.

Capital Outlay (Object Code 6000)

This budget line item reflects planned expenditures for new and replacement equipment and other capital expenditures.

Unrestricted

The district's 2012-13 adopted budget showed a decrease of $171,232 from the 2011-12 actuals on the unrestricted part of the general fund. The district reported that one-time expenditures made during 2011-12 were removed when developing the 2012-13 budget. No adjustments are proposed to this portion of the budget, and expenditures are reasonably predicted to be flat in the MYFP's out years.

Restricted

The district's 2012-13 adopted budget reflects a decrease of $298,427 from the 2011-12 actuals, which reflects a shift of expenditures from this line item to other operating expenses and services (object code 5000) anticipated for 2012-13. The district's adopted budget appears reasonable, so no adjustments are proposed to this line item. Expenditures are reasonably predicted to be flat in the MYFP's out years.

Other Outgo (Object Code 7000)

This budget line item includes debt service, interfund transfers out, student financial aid expenditures, and a current year reserve for contingencies.

Unrestricted

This line item in the district's 2012-13 adopted budget shows $331,200, allocated as follows:

- A $24,000 transfer to the student financial aid trust fund
- $1,200 for the student trustee
- $306,000 for a current year undesignated contingency

The district's 2011-12 actuals reflected no expenditures from this line item. No adjustments are proposed to this portion of the 2012-13 budget; however, given the expenditure history, the elements that comprise this line item should be treated as one-time items. Therefore, they are not reflected in the MYFP's out years. The district should examine this line item at each budget development and revision to add, adjust, or remove these one-time items.

Restricted

The district's 2012-13 adopted budget shows an increase of $48,667 from the 2011-12 actuals, reflecting a planned increase in expenditures for student financial aid from grant funds during 2012-13. The district's adopted budget appears reasonable, so no adjustments are proposed to this line item. Expenditures are reasonably predicted to be flat in the MYFP's out years.

Recommendations

The district should:

1. Update the budget with the year-to-date activity to properly reflect the expenditure patterns by resource and object.
2. Negotiate a benefit cap for health and welfare benefits with all three collective bargaining units.
3. Identify the exact amount necessary to fully fund the OPEB obligation and vacation liability and redirect the remaining funds back to the district's general fund ending balance.
4. Modify holding account #4900, which contains a budget of $8,605,420, by redirecting unspent budget amounts to the proper account codes.

Staffing and Operational Costs

Average Class Size

One measure used to determine operational efficiency in staffing is the average class size as determined by the weekly student contact hours (WSCH) divided by full-time equivalent instructors (FTEI). To understand how the formula operates, it is useful to define FTEI, WSCH and WSCH per FTEI.

Full-Time Instructor Equivalent (FTIE)

FTIE is a standardized measure of faculty workload at a department, division, or institution. In a FTIE calculation, a faculty member's actual workload is standardized against the normal (i.e., basic) workload. An FTIE of 1.0 means that the faculty member is equivalent to a full-time instructor, while an FTIE of 0.5 indicates a half-time instructor. FTIE does not represent an actual number of faculty members, but is a conceptual measure of faculty workload. For example, an FTIE of 10.0 could mean 10 full-time instructors, but it also could refer to 20 half-time instructors (20 × 0.5 = 10.0) or five full-time instructors and 10 half-time instructors ([5 × 1.0] + [10 × 0.5] = 10.0) and so on. Therefore, an FTIE cannot be interpreted in isolation, but should be interpreted in context with other FTIE. For instance, the FTIE of a department in 2012 (FTIE of 300.0)would indicate an increase of 50% as compared to the FTIE of the department in 2011 (FTIE of 200.0).

The formula for the calculation of FTIE can be expressed by the equation below:

> FTIE (Full-Time Equivalent Instructors) = (Assignment workload hours × Assigned number of weeks × 100) / (100 percent weekly workload hours × Total weeks in term)

Weekly Student Contact Hours (WSCH)

WSCH represents a total number of hours faculty contacted students weekly in a department, division or an institution. Since WSCH is calculated from a relationship between class enrollment and weekly hours for each class, and weekly hours vary class by class, it should be interpreted in context with other WSCH instead of alone. For example, the WSCH of a department in 2008 (WSCH of 220.0) could increase 10% by WSCH of the department in 2007 (WSCH of 200.0). The formula for the calculation of WSCH can be expressed by the equation below:

> WSCH (Weekly Student Contact Hours) = Class Enrollment × Weekly Hours

WSCH per FTIE

WSCH per FTIE (WSCH/FTIE) represents a ratio of weekly student contact hours to full-time equivalent instructors in a department, division, or an institution. In a WSCH per FTIE calculation, WSCH is divided by FTIE. WSCH per FTIE could be interpreted in terms of either cost-efficiency or instructional quality. Increase in WSCH per FTIE in a department over years, for example, WSCH/FTIE of 100.0 in 2011 to WSCH/FTIE of 200.0 in 2012, may demonstrate that faculty load cost efficiency has improved. This is because the weekly student contact hours of a full-time equivalent instructor in 2012 have doubled compared to 2011. Conversely, a decrease in WSCH per FTIE in a department over years may demonstrate that the cost-efficiency of the department's faculty load has decreased. The formula for the calculation of WSCH per FTIE can be expressed by the equation below:

> WSCH/FTIE = Weekly Student Contact Hours / Full-Time Equivalent Instructors

A student per faculty calculation is often used to measure instruction productivity where it is found that a higher student to faculty ratio generally identifies more productivity and cost efficiency. Districts typically use WSCH or FTES in relation to the full-time equivalent faculty (FTEF) to evaluate this productivity. The WSCH represents the total number of hours faculty contact students based on class enrollment and weekly class hours and can be used to calculate the FTES. Low class enrollment and/or class hours result in low WSCH and FTES calculations.

It is uncertain whether the quality of instruction increases with a lower student-to-faculty ratio. A lower ratio should provide for greater student access and contact with instructors; however, this is difficult to correlate because of the many other factors influencing students and the various ways to measure success (e.g. course completion, graduation rates, course preparation). FCMAT is unaware of any empirical studies that demonstrate increased quality of instruction with a smaller ratio.

The WSCH and FTES statistics are readily obtainable because they are regularly reported to the state through the district submission of the CCSF 320 report. Total FTEF figures are also reported to the California Community Colleges Chancellor's Office.

As part of this study, a comparison was completed between the district and four California community colleges. The four districts that Victor Valley administration deemed most comparable their administration were used for this study. The table below provides the comparison districts' FTES and the FTEF for the years 2009 through 2011 as acquired from the chancellor's office management information systems database. The WSCH per FTEF is also calculated for further comparison.

FTEF	2009-10			2010-11			2011-12		
	Tenure	Temp	Total	Tenure	Temp	Total	Tenure	Temp	Total
Antelope	230.4	183.5	413.9	225.2	172.1	397.3	214.7	171.6	386.3
Desert	122.6	150.7	273.3	122.5	151.3	273.8	119.1	122	241.1
Mt. San Jacinto	194.1	278	472.1	233.2	236	469.2	178.1	318.4	496.5
Solano	160.3	155.3	315.6	187.1	123.1	310.2	171.7	87.8	259.5
Victor Valley	174.5	190.6	365.1	170.6	195	365.6	163	195.1	358.1
FTES									
	Credit	Non	Total	Credit	Non	Total	Credit	Non	Total
Antelope	10,594.60	58.09	10,652.70	10,554.89	14.63	10,569.52	9,704.78	5.17	9,709.95
Desert	7,994.04	1,035.68	9,029.72	7,776.17	938.56	8,714.74	7,332.89	464.30	7,797.20
Mt. San Jacinto	12,566.63	688.27	13,254.90	11,076.31	618.33	11,694.64	10,170.14	302.54	10,472.68
Solano	9,898.32	5.54	9,903.86	9,601.76	8.26	9,610.02	8,720.41	1.46	8,721.86
Victor Valley	10,329.78	237.84	10,567.62	9,859.00	150.74	10,009.73	9,347.09	131.46	9,478.55
Total FTES per total FTEF									
Antelope		25.74			26.60			25.14	
Desert		33.04			31.83			32.34	
Mt. San Jacinto		28.08			24.92			21.09	
Solano		31.38			30.98			33.61	
Victor Valley		28.94			27.38			26.47	
WSCH per FTEF									
Antelope		386			399			377	
Desert		496			477			485	
Mt. San Jacinto		421			374			316	
Solano		471			465			504	
Victor Valley		434			411			397	

* FTEF and FTES data obtained from the CCCCO MIS Database

FCMAT found that the 2011-12 FTES per FTEF ratios range from 21.09 students per faculty (Mt. San Jacinto) to 33.61 (Solano). Because of the many factors that can affect these ratios such as different taxonomy of classes, geographic limitations, and facility constraints, it is difficult to draw specific conclusions and identify an optimum ratio. However, a district may use this information to identify more global trends and differences between comparative districts. This information can warrant additional analysis of classroom enrollment and faculty cost data.

For example, in 2009 the district had a FTES per FTEF ratio of 28.94, which decreased in 2010 to 27.38 and in 2011 to 26.47. This indicates a decline that will likely correspond to a decrease in productivity and therefore, a higher cost of instruction per student.

The chancellor's office calculates one FTES as equivalent to 525 WSCH as calculated by one student at 15 hours per week for 35 weeks (1 student X 15 hours X 35 weeks). The productivity goal accepted for community colleges is set at 525 WSCH per FTEF. Converting the FTES to WSCH, FCMAT found that the 2011-12 ratios for all comparative colleges range from 316 to 504, with all comparatives below the 525 WSCH per FTEF standard productivity goal. Although reaching the standard WSCH per FTEF goal may be difficult for a variety of reasons, trends can be identified and conclusions drawn. For example, four of the five colleges including Victor Valley had lower productivity in 2011-12 than in 2009-10. Two of the five colleges including Victor Valley declined each year since 2009-10. Victor Valley had lower productivity each successive year for a total decline of more than 8.5%. This trend is significant since it indicates decreasing efficiency, which will result in a higher cost for instruction per student.

Recommendations

The district should:

1. Establish and regularly evaluate productivity goals.
2. Identify unique district productivity barriers for consideration during administrative planning and budgeting.
3. Identify and track productivity trends and use these to measure improvement efforts.
4. Regularly evaluate course enrollment and adjust class offerings to increase class sizes.

Evaluation of the Class schedule Based on Student Demand

FCMAT attempted to gather information from comparative districts to evaluate the class schedule based on student demand, but found it difficult to align this information for comparisons. Enrollment management should consider any known internal and external factors and limitations. These limitations can be unique based on a variety of fluctuating general and local factors, such as the economy and local employment, that have a significant effect on student demand for courses and cause curriculum and course offerings to change constantly if managed correctly. A useful correlation between the class scheduling of comparative districts could not be identified from the available information.

In June 2012, the Victor Valley Community College District office of instruction developed guiding principles for the spring 2013 class schedule. These principles prioritize offerings and call for evaluating repeat courses, maintaining a minimum curriculum at primary sites, minimizing nonessential electives, considering the impact of course cancellation, and evaluating costs. The guidelines identify four tiers of evaluation when cuts are to be identified. These range from tier one, for courses that should be cut, to tier four, for courses that should be preserved "if at all possible." These guidelines can be essential for schedule development and maximization.

Recommendations

The district should:

1. Continue establishing principles for schedule development and communicate and adopt them districtwide.

2. Routinely identify and evaluate the local factors that affect the demand for curriculum and classes, and adjust district course offerings and scheduling accordingly.

Faculty Obligation Number

In the early 1990s, Assembly Bill (AB) 1725 changed the community college funding formula and included goals developed to maintain a required number of full-time faculty teaching in credit programs and increase the number of full-time faculty as growth funding was provided. The goal was for 75% of the hours of credit instruction to be taught by full-time faculty, and as a result, the 75-to-25 ratio became a common community college term. The state budget allocated limited additional resources to colleges to support this effort for the first two or three years after the passage of AB 1725, but not afterward. Although the goal to maintain and increase full-time faculty remained, the lack of state funding has produced limited progress.

AB 1725 included the following two parts:

- To convert part-time faculty to full-time to increase the ratio between the two in community colleges statewide.
- To increase hourly part-time pay so that it would be more comparable to the salaries paid to full-time teaching faculty.

The supplemental allocation to fund part-time faculty pay has been reduced and offset by general apportionment reductions.

Education Code Section 87482.6 requires community colleges to work toward having full-time faculty members teach 75% of the hours of credited instruction. Community colleges with less than that 75% are required to work towards that goal by increasing the number of full-time faculty over the prior year in proportion to the amount of growth in funding for credited FTES. Only tenured faculty or those on tenure track employed full-time that teach credit instruction are counted towards the faculty obligation number (FON). Faculty who are employed full-time but not on tenure track cannot be included. This goal of maintaining and increasing the number of tenured full-time faculty has had limited success since state education funding decreased over the past few years.

FON compliance is achieved from an increase in total full-time faculty or the percentage of full-time faculty. The chancellor's office Data Mart reports show that Victor Valley Community College District complied with the FON in fall 2011 through the percentage calculation. The table below indicates that for 2011, three of the comparison districts increased their full-time faculty FTE while Victor Valley had a reduction of 4.6 FTE. In addition, the comparison indicates that all comparison districts increased the full-time faculty percentage in 2011 from 2010 levels.

District	Fall 2011 FT Faculty Obligation	Fall 2011 FT Faculty Actual	Difference	Fall 2011 FT faculty percentage	Fall 2010 FT faculty percentage
Antelope	153.6	180.04	26.44	52.55%	51.57%
Desert	102.2	102.8	0.6	49.90%	47.30%
Mt San Jacinto	132.8	148	15.2	42.34%	42.08%
Solano	166.6	155	-11.6	66.61%	57.20%
Victor Valley	123.1	118.5	-4.6	39.26%	41.44%

The fall 2011 full-time faculty FON is the benchmark requirement for the fall 2012 obligation. In a recent presentation to the board of governors, the vice chancellor for fiscal policy recommended that the board not increase the FON for fall 2013. As indicated in the chart, Victor Valley has the lowest percentage of full-time faculty among the comparatives. For the fall 2011 period, the average full-time faculty percentage for California Community Colleges was 56.87% or 17.61 percentage points more than Victor Valley. These figures indicate that other community college districts in the comparison and in California in general are more effective in increasing and/or retaining their full-time faculty.

The following table shows that the Victor Valley Community College District had a 4.56% reduction in credit FTES in 2010-11 and a 5.19% reduction for 2011-12. This may account for the reduction in full-time faculty, but should not affect FON compliance since the FON should be proportionately reduced. In the same period, the district reduced its noncredit FTES by 36.62% and 12.79% respectively, bringing its noncredit FTES to 1.39% of total FTES.

Full Time Equivalent Students

	2009-10		2010-11		2011-12			
District	Credit FTES	Noncredit FTES	Credit FTES	Noncredit FTES	Credit FTES	Noncredit FTES		
Antelope	10594.6	59.09	10554.89	14.63	9704.78	5.17		
Desert	7994.04	1035.68	7776.17	938.56	7332.89	464.3		
Mt. San Jacinto	12566.63	688.27	11076.31	618.33	10170.14	302.54		
Solano	9898.32	5.54	9601.76	8.26	8720.41	1.46		
Victor Valley	10329.78	237.84	9859	150.74	9347.09	131.46		
							Overall 2009-10 to 2011-12	
			% change from prior year				Credit FTES	Noncredit FTES
Antelope			-0.37%	-75.24%	-8.05%	-64.66%	-8.40%	-91%
Desert			-2.73%	-9.38%	-5.70%	-50.53%	-8.27%	-55.17%
Mt. San Jacinto			-11.86%	-10.16%	-8.18%	-51.07%	-19.07%	-56.04%
Solano			-3.00%	49.10%	-9.18%	-82.32%	-11.90%	-73.65%
Victor Valley			-4.56%	-36.62%	-5.19%	-12.79%	-9.51%	-44.73%
	% noncredit to total FTES							
		2009-10		2010-11		2011-12		
Antelope		0.55%		0.14%		0.05%		
Desert		11.47%		10.77%		5.95%		
Mt. San Jacinto		5.19%		5.29%		2.89%		
Solano		0.06%		0.09%		0.02%		
Victor Valley		2.25%		1.51%		1.39%		

For 2009-10 to 2011-12, the district reduced its credit FTES by 9.51% and its noncredit FTES by 44.73%. While this appears to be a significant reduction, the comparison districts reduced their noncredit FTES by 55%, 56%, 73.65%, and 91% over the same period, indicating an even greater reduction.

Two comparative districts have an FON of more than 50% and offer fewer noncredit courses. The districts with a higher noncredit FTES, including Victor Valley, also have a lower FON attainment percentage. This indicates that full-time faculty are diverted to teaching noncredit courses or that additional part-time or nontenure track faculty are hired to cover the additional noncredit courses.

Pressures against exceeding the FON obligation are evident. Offering popular noncredit courses attracts students. Providing expertise with part-time faculty is common and to an extent necessary as it allows for flexibility and is typically more cost-efficient. Once a FON status of employment or ratio is reached, it also establishes a new minimum threshold.

Recommendations

The district should:

1. Continue to staff in consideration of meeting the FON requirements.
2. Continue to evaluate and reduce noncredit courses as possible and in alignment with district goals.
3. Continue efforts to attract and retain full-time faculty and use part-time faculty to meet the needs of the district.

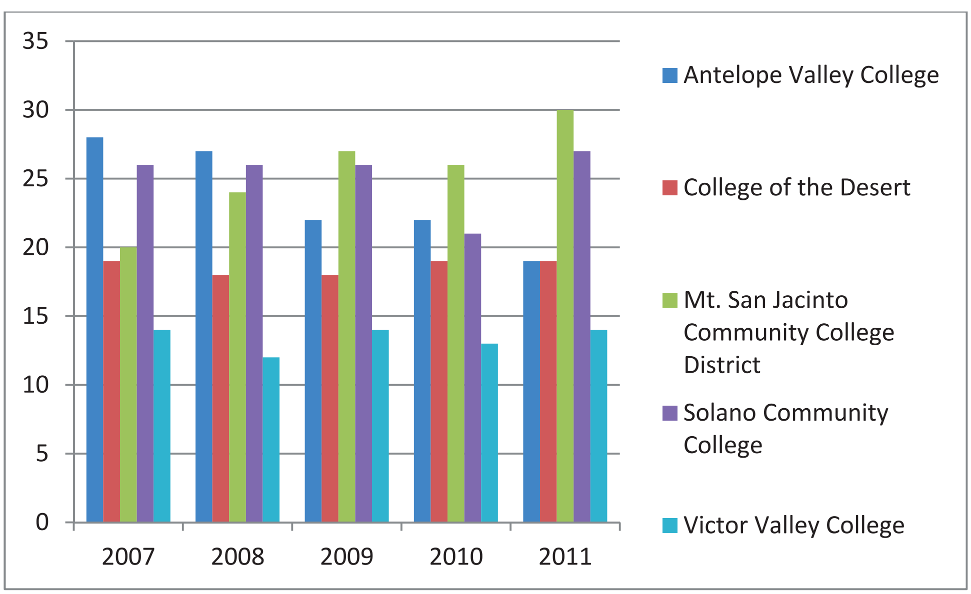
Managerial Positions

FCMAT reviewed the executive, administrative, and managerial positions reported to the Integrated Postsecondary Education Data System (IPEDS) by each of the comparative districts. While each district is configured differently, the overall need for administrative oversight should be similar, and a relevant comparison can be made by reviewing the FTE of administration in relation to students and staff.

For 2007 through 2011, the districts maintained varied levels of administration. While Antelope Valley decreased 9 FTE, Mt. San Jacinto increased by 10 FTE. College of the Desert, Solano, and Victor Valley have maintained a more consistent level of administrative FTE.

Executive, Administrative, and Managerial Positions FTE

	2007	2008	2009	2010	2011
Antelope Valley College	28	27	22	22	19
College of the Desert	19	18	18	19	19
Mt. San Jacinto Community College District	20	24	27	26	30
Solano Community College	26	26	26	21	27
Victor Valley College	14	12	14	13	14



These statistics would typically indicate that Mt. San Jacinto experienced a great degree of growth, Antelope Valley a decline, and the others remained stable. However, as indicated below, all districts experienced a decrease in total FTES over the last three or four years reviewed.

FTES

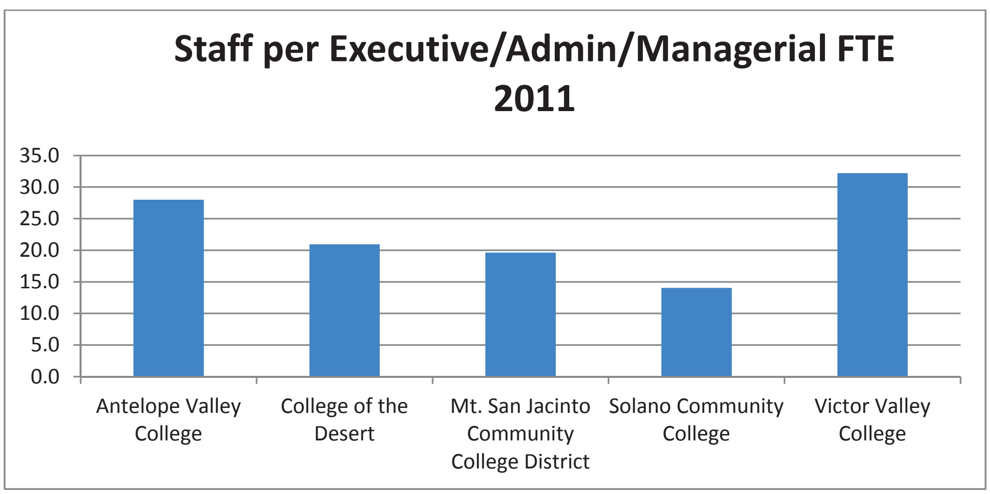
District	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Antelope	9496.19	11278.78	11969.61	10652.7	10569.52	9709.95
Desert	7700.6	8027.75	8580.95	9029.72	8714.74	7797.19
Mt San Jacinto	9926.61	10675.55	12585.43	13254.9	11694.64	10472.68
Solano	7002.92	8355.11	9287.72	9903.86	9610.02	8721.86
Victor Valley	8699.52	9870.29	10612.98	10567.62	10009.74	9478.55

Source:CCCCO DataMart

To gauge the administrative staffing levels, FCMAT compared the executive, administrative, and managerial FTE (EAM) to the total enrollment as shown in the chart below.

The enrollment between the comparatives ranged from 283 to 584 students per EAM for the 2010-11 year. A greater number of students per EAM typically indicates more efficiency in serving those students with administration. For the period reviewed, Victor Valley served more than twice the student enrollment per EAM than Solano and 60% more than the next district in the comparison (Mt. San Jacinto). The ratio can be skewed by misidentification or misreporting of administrative positions, or the responsibilities may be underserved, but these factors were not analyzed as part of the FCMAT study.

Another perspective used to gauge management efficiency is to review the number of management positions compared to the number of staff they oversee. The bar graph below shows this data.



For the 2011 IPEDS reporting, staff per EAM in the comparison districts ranged from 14 to 32.2. The greater the number of staff supervised per EAM, the greater the efficiency of the EAM. The Solano Community College recorded the lowest staff-to-management ratio and Victor Valley reported the highest, indicating that Victor Valley may use management more efficiently compared to other districts reviewed. However, this record is subject to misidentification and misreporting or may also indicate an underserving of management responsibilities.

Recommendations

The district should:

1. Review the identification and reporting of executive, administrative, and managerial positions to ensure accuracy.
2. Evaluate the responsibilities of the executive, administrative, and managerial positions to ensure that district needs and objectives are being met.

Classified Hourly Expense

An evaluation of the comparison districts' classified expenses was conducted using the most recent available salary schedules and the chancellor's office's fiscal data. Since no two districts are configured or staffed identically, performing a legitimate comparison requires efforts to identify similar data.

FCMAT reviewed the classified salary schedules of the comparison districts and identified some differences between the ranges, steps, and hourly rates.

	# ranges	# steps	Lowest hourly	Highest hourly
Antelope	40	5	11.96	59.20
Desert	25	9	11.40	54.32
Solano (OE)	23	6	10.97	36.00
Solano (CSEA)	22	6	11.48	41.94
Mt. San Jacinto	42	12	10.16	59.36
Victor Valley	16	6	14.87	41.85

The number of classified salary ranges demonstrates the degree to which a district can differentiate employee pay based on qualifications, required skills, and other distinguishable job characteristics. Schedules with more ranges can provide greater differentiation between job compensation. Three comparison districts had 40 or more ranges on their salary schedule, one provided 25, and Victor Valley had only 16 ranges. Salary steps provide for salary increases that are typically applied annually from starting to top pay with the rates between steps varying between salary schedules. While districts may have different rules for progression through the steps, the typical employee would be hired on step one and progress one step per year to the top step. In the comparison districts, the number of steps varied from five to 12, and Victor Valley fit within the norm of comparisons with a six-step progression. The total increase from the first to the last step resulted in a rate increase of between approximately 17.7% for Antelope Valley to more than 32% for College of the Desert. The rate increase from step one to step six for Victor Valley was approximately 21.5%.

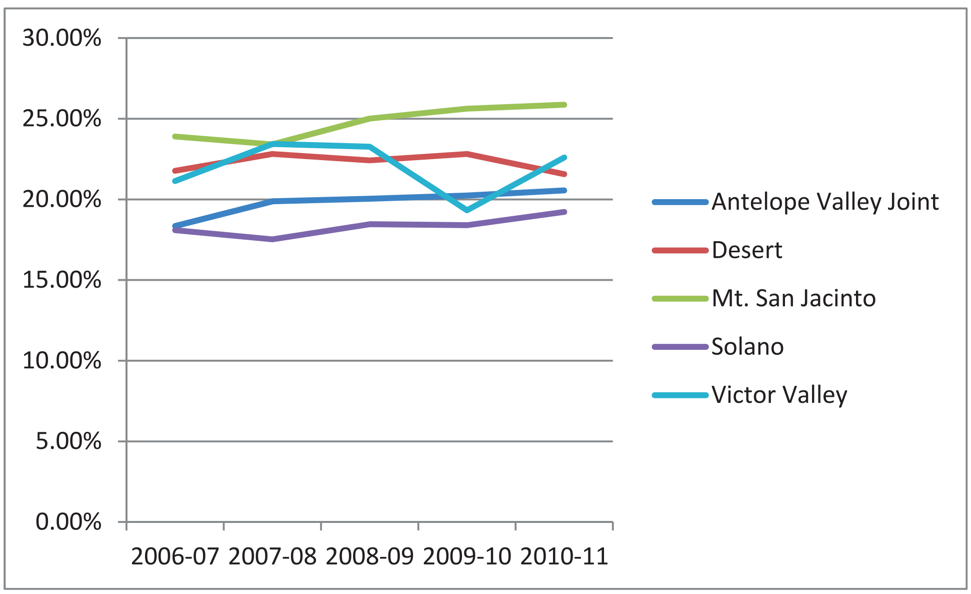
In the overall classified compensation schedule, the hourly rates of the comparison districts ranged from $10.16 to $59.36. Both the low and high rates were on the Mt. San Jacinto schedule, which also had one of greatest number of ranges and the most steps. Excluding Mt. San Jacinto, the other comparatives spanned from $10.97 to $59.20 per hour, and Victor Valley had the highest starting salary with an hourly rate of $14.87 but also had the lowest top salary of $41.85 per hour.

To identify the potential impact of the salary schedule differences, FCMAT reviewed salary schedule placement and pay for similar positions. A salary comparison is attached to the appendix section of this report. While pay variances were evident, most had a reasonable alignment between districts. The Victory Valley positions of secretary, grounds worker, accountant (entry level), maintenance worker, and accountant (top) had the highest starting pay in the comparison group. Of the positions reviewed, only the Victor Valley accountant (top) had the highest hourly rate in the top step. While the overall classified salary schedules are closely aligned, the Victor Valley Community College District's lack of ranges does not allow for as much flexibility and differentiation between job classifications. As a result, some job classifications are placed in higher salary ranges than would be necessary if additional ranges were available.

FCMAT also reviewed the historical costs of classified salaries. The following table and line graph show the districts' classified salaries as a percentage of total expenditures.

Percentage of Classified Salaries to Total Expenditures

	2006-07	2007-08	2008-09	2009-10	2010-11
Antelope Valley Joint	18.34%	19.87%	20.04%	20.23%	20.55%
Desert	21.77%	22.81%	22.41%	22.81%	21.56%
Mt. San Jacinto	23.90%	23.41%	25.01%	25.62%	25.86%
Solano	18.08%	17.52%	18.45%	18.40%	19.22%
Victor Valley	21.13%	23.43%	23.26%	19.32%	22.59%
Source:CCCCO Fiscal Data Abstract					



The value of reviewing classified salary costs in relation to total expenditures is that, once salary schedules are determined to be in relative alignment as shown above, a reasonable evaluation can be made regarding a relationship between staffing levels between districts. As growth or decline in the district varies, so should classified staffing and therefore classified salary expense as a portion of total expenses.

The matrix identifies a variance of classified salary expense from 18.08% of total expenses (Solano 2006-07) to 25.86% (Mt. San Jacinto 2010-11), and Victor Valley ranged from 19.32% to 23.43%. While it is within the range of the comparatives, Victor Valley varied most significantly between 2009-10 and 2010-11, the last year reviewed, with an increase of more 3%. If the recent increase indicates a continued rise in the share of district expenses for classified salaries, the district may need to take action to reduce staffing.

Recommendations

The district should:

1. Continue to evaluate the classified salary schedule to ensure it attracts and retains the necessary staff without overcompensating in comparison to similar positions in the area.
2. Consider negotiating additional ranges for the classified salary schedule to allow for a greater degree of differentiation between classifications and a more precise alignment of job requirements/skills and compensation.
3. Monitor classified expenses in comparison to total district expenses and overall budget to ensure alignment to district goals and priorities.

Off-site Centers and Sites

The district operates few off-site programs, and most are in leased facilities except for the Eastside Public Safety Training Center, a regional training facility for future firefighters, paramedics, police and correctional officers.

These facilities are located in Apple Valley, downtown Victorville, Hesperia, Silverado, the Hesperia Unified School District, and McGeorge Air Force Base.

Health and Welfare Benefits for Active Employees

The district is a member of the Southern California Schools Employee Benefits Association, a joint powers authority. According to staff, the health insurance rate increase for 2012-2013 was projected to be 17%. Since the district does not have a cap on health insurance premiums, all increased premium costs are paid by the district from the general fund.

To review how the cost of health and welfare benefits for active employees affects the district's fiscal condition, four similar community college districts were identified for comparative purposes. The comparison districts' health and welfare contribution rates are as follows:

District	Bargaining Unit	Health & Welfare Cap*
College of the Desert	Faculty	$15,000.00
	Classified	$15,000.00
Antelope Valley	Faculty	$13,385.10
	Classified	$13,385.10
Solano	Faculty	Cost of current plan
	Classified (White Collar)	Cost of current plan
	Classified (Blue Collar)	Cost of current plan
Mt. San Jacinto	Faculty	$9,723.30
	Classified	$9,723.30

**All health and welfare benefit cap data is on an annual basis and based on FTEs.*

A review of the four comparable districts demonstrates that all but one have a cap on health and welfare benefits for both faculty and classified bargaining units. Because of rising medical costs, negotiating some form of health and welfare benefit cap is essential to contain costs.

Recommendation

The district should:

1. Negotiate a cap on health and welfare benefits with all three collective bargaining units.

Encroachment

Community college districts do not receive enough revenue to cover the costs of operating a number of restricted programs. When a restricted program's expense exceeds revenue, a contribution, or transfer is required from the unrestricted general fund. Although statute requires some programs to receive contributions from the unrestricted general fund, others are discretionary on the part of the district.

When a restricted program requires a contribution of unrestricted dollars, it is often described as "encroaching" on the general fund. This is because every unrestricted dollar used for a restricted program is considered to be a potential allocation to the district's core programs. For this reason, it is important to continuously monitor the level of contributions to restricted programs.

FCMAT reviewed the district's financial records and observed that the district does not make contributions to restricted programs beyond what is statutorily required.

Eight-Five Percent Rule

The district offers summer and winter classes. According to the California Teachers Association contract Article 20: Summer and Winter Instructional Assignments, "full-time faculty will have the first right of refusal for all summer and winter sessions" subject to a maximum of 0.8 annual load divided evenly between the two sessions. Additional classes may be taught up to a maximum of 0.3 load and compensated at 85% of the employee's base salary, or a maximum of 0.1 load if hired after July 1, 2007.

Commonly referred to as the 85% rule, the total cost based on actual payroll data over the last three fiscal years is $4,314,301 as demonstrated in the table below.

Row Labels	Column Labels 2009/10 LOAD	x85%	2010/11 LOAD	x85%	2011/12 LOAD	x85%	Total LOAD	Total x85%
Administration of Justice	0.2244	$ 19,577	0.2000	$ 17,820			0.4244	$ 37,397
AGNR	0.2665	$ 22,239	0.2998	$ 25,583	0.2999	$ 26,156	0.8662	$ 73,978
Allied Health	0.3687	$ 41,267	0.1714	$ 14,341	0.1666	$ 15,894	0.7067	$ 71,502
Anthropology	0.2000	$ 15,648	0.2000	$ 15,648	0.2000	$ 15,648	0.6000	$ 46,944
Art	0.5000	$ 38,970	0.6000	$ 46,878	0.5000	$ 39,724	1.6000	$ 125,572
Automotive	0.6000	$ 44,053	0.4714	$ 35,554	0.6000	$ 45,184	1.6714	$ 124,791
Basic Skills	0.2047	$ 16,571					0.2047	$ 16,571
BET	0.3000	$ 25,915	0.3000	$ 25,915	0.3000	$ 25,915	0.9000	$ 77,745
Biology	0.9032	$ 61,666	0.7809	$ 53,394	0.7284	$ 50,027	2.4125	$ 165,087
BSKL	0.0524	$ 4,073					0.0524	$ 4,073
Business Administration	0.2000	$ 17,819	0.2000	$ 17,820	0.2000	$ 17,820	0.6000	$ 53,459
Business Education Technology	0.3000	$ 25,100					0.3000	$ 25,100
Business Management	0.6000	$ 48,274	0.3000	$ 23,428	0.4000	$ 32,714	1.3000	$ 104,417
Business Real Estate	0.2000	$ 17,276	0.2000	$ 17,277	0.2000	$ 17,277	0.6000	$ 51,830
CalWORKS-Student Services					0.0333	$ 1,665	0.0333	$ 1,665
Chemistry	0.1286	$ 10,382	0.6000	$ 51,514	0.6000	$ 52,080	1.3286	$ 113,976
Child Development	0.6000	$ 39,579	0.4000	$ 27,990	0.4000	$ 27,425	1.4000	$ 94,994
CIDG	0.5381	$ 42,757	0.2380	$ 19,861	0.2380	$ 20,309	1.0141	$ 82,927
CIS					0.1000	$ 7,049	0.1000	$ 7,049
CMST	0.1000	$ 7,215					0.1000	$ 7,215
Commercial Art					0.2761	$ 22,521	0.2761	$ 22,521
Computer Information Technology	0.5714	$ 43,219	0.4285	$ 33,323	0.5428	$ 44,466	1.5427	$ 121,009
Counseling and Guidance	0.0833	$ 6,189					0.0833	$ 6,189
Dance	0.3000	$ 21,212	0.2830	$ 20,543	0.3000	$ 22,342	0.8830	$ 64,098
Electronics	0.3000	$ 25,599	0.3000	$ 26,165	0.3000	$ 26,729	0.9000	$ 78,493
English	1.7000	$ 137,518	1.6996	$ 139,337	1.8996	$ 157,659	5.2992	$ 434,514
ESL	0.4063	$ 31,766	0.1000	$ 7,636			0.5063	$ 39,402
Fire	0.1037	$ 7,028					0.1037	$ 7,028
Fire Technology					0.1478	$ 10,574	0.1478	$ 10,574
Geography	0.3000	$ 26,729	0.1000	$ 8,910	0.1000	$ 8,910	0.5000	$ 44,549
Guidance	0.0167	$ 833					0.0167	$ 833
History	0.6000	$ 52,329	0.6000	$ 52,894	0.6000	$ 53,459	1.8000	$ 158,681
Mathematics	2.6046	$ 198,557	2.2331	$ 168,665	2.0666	$ 162,776	6.9043	$ 529,998
Media Arts	0.1381	$ 9,471	0.1380	$ 9,728	0.1380	$ 9,987	0.4141	$ 29,186
Nursing	1.3782	$ 98,200	0.3348	$ 26,613	0.2379	$ 19,857	1.9509	$ 144,670
Paramedics	0.8835	$ 57,505	0.9000	$ 61,115	0.8983	$ 63,505	2.6818	$ 182,125
Philosophy, Religious Studies	0.2000	$ 17,819	0.2000	$ 17,820	0.2000	$ 17,820	0.6000	$ 53,459
Photography	0.2761	$ 21,537	0.1380	$ 11,027			0.4141	$ 32,564
Physical Education	1.3000	$ 105,672	0.9000	$ 74,443	1.0714	$ 88,380	3.2714	$ 268,495
Political Science	0.5000	$ 36,729	0.6000	$ 45,118	0.6000	$ 45,683	1.7000	$ 127,529
Psychology	0.6000	$ 43,988	0.6000	$ 47,522	0.6000	$ 47,898	1.8000	$ 139,408
Reading Specialist	0.1000	$ 8,157					0.1000	$ 8,157
Respiratory Therapy	0.3000	$ 21,396	0.3000	$ 21,961	0.3000	$ 22,526	0.9000	$ 65,883
Sociology	0.3000	$ 23,471	0.3000	$ 23,472	0.3000	$ 23,472	0.9000	$ 70,415
Spanish	0.6000	$ 50,700	0.4666	$ 39,945	0.6000	$ 51,830	1.6666	$ 142,475
Speech	0.6000	$ 45,980	0.4047	$ 30,951	0.6761	$ 52,223	1.6808	$ 129,154
Student Services					0.0167	$ 898	0.0167	$ 898
Theater Arts	0.2000	$ 17,819	0.1000	$ 8,910	0.2000	$ 17,820	0.5000	$ 44,549
Welding	0.2667	$ 23,035	0.2785	$ 24,058	0.2785	$ 24,058	0.8237	$ 71,151
Grand Total	**20.9149**	**$ 1,630,844**	**16.3663**	**$ 1,293,179**	**17.3160**	**$ 1,390,278**	**54.5972**	**$ 4,314,301**

The next table calculates the difference between the actual payments made based on the 85% rule and the cost of paying $990 per unit, the same rate as earned by part-time instructors with the same class load. According to these calculations, the district would have saved $2,691,142 over the last three years by using part-time instructors, equating to an average annual savings of $897,047. Given the magnitude of this expense, the district should negotiate with the faculty to have this provision removed from the collective bargaining agreement.

Fiscal Year	Summer and Winter Units	Payment at 85% - Historical Information of Actual Cost	Unit Rate for Part-time Faculty	Total Cost Based on $990 Per Unit Rate	Difference
2009 – 10	628.075	$1,630,844	$990	$621,794	$1,009,051
2010 - 11	491.480	$1,293,179	$990	$486,566	$806,613
2011 – 12	520.000	$1,390,278	$990	$514,800	$875,478
Total		$4,314,301		1,623,159	$2,691,142
Average Annual Cost					$897,047

Recommendation

The district should:

1. Negotiate the removal of this provision from the collective bargaining agreement with the faculty.

Institutional Restrictions

FCMAT reviewed the district's collective bargaining agreements and identified provisions that could be considered for renegotiation.

Faculty Association Agreement

This agreement includes provisions for the release from assignment for the equivalent of 2.8 FTEF annually: 1.4 FTEF for performing academic senate related duties, and an additional 1.4 FTEF for association business. Since these are instructional staff members who would have classroom obligations for this time and generate FTES funding, the district must replace the course offerings by increasing the load of existing staff or part- time positions. All these options are at an increased cost to the district.

Recommendation

The district should:

1. Evaluate the cost/benefit of these provisions in light of current financial conditions and negotiate, if appropriate, a reduction.

Another provision of the agreement is for retirement benefits. The agreement allows full-time faculty members who are eligible for STRS retirement and have been employed by the district at least 10 years to receive district-paid health and welfare benefits at the active member contribution level until they reach Medicare eligibility. If the retiree becomes Medicare eligible, but the spouse is not, the district continues with the benefit until the spouse becomes eligible or for five years, whichever occurs first.

The retiree is entitled if one is available, and no active full-time faculty member is interested, up to a 20% assignment payable at the lesser of 20% of the former salary, or the STRS earnings limit. The retiree has priority for this assignment over current part-time faculty

Recommendations

The district should:

1. Negotiate a health and welfare benefit cap with the faculty bargaining unit.
2. Ensure that benefits terminate when the retiree reaches Medicare eligibility.
3. Consider increasing the qualifying district employment period from 10 to 20 years for retiree health and welfare benefits to recognize the value of a long-term district employee.

Part-Time Faculty Agreement

Given the current funding and number of part-time faculty, the district should determine, whether the language regarding the retention of a class at 20 students is economically viable.

CSEA Agreement

One of the provisions within this agreement is for retirement benefits. The agreement allows a CSEA member who is eligible for PERS retirement and has worked at the district for at least 10 years to receive district-paid health and welfare benefits at the active member contribution level until the retiree reaches Medicare eligibility. An earlier section of this report includes a review and recommendation on negotiating a cap for employee benefits.

Recommendations

The district should:

1. Negotiate a health and welfare benefit cap with the classified bargaining unit.
2. Consider increasing the qualifying district employment period from 10 to 20 years for retiree health and welfare benefits to recognize the value of a long-term district employee.

College Foundation

The Victor Valley College Foundation is a charitable public benefit corporation that operates independently from Victor Valley College. The foundation is governed by a 30-member board of directors and is subject to all laws governing 501(c) 3 organizations operating in the state of California. The foundation elicits donations for scholarships and loans to needy and deserving college students.

Although the foundation's audited 2011-12 financial statement shows total assets of $4,615,484, $1,845,000 of the assets consist of donated land, and $460,000 of a donated airplane. Given the size of the foundation's budget, and its limited focus, it likely cannot help the district with its financial position.

Guaranteed Investment Contract

In 1994, the district invested $20 million in a guaranteed investment contract (GIC) through Anchor National Life Insurance Company for resources in fund 39, special reserve fund. A GIC is an investment contract with a bank or other security firm in which a guaranteed investment rate or minimum investment rate of return will be paid for the use of the funds. Guaranteed investment contracts are typically issued by life insurance companies and marketed to institutions qualified for favorable tax status under the Internal Revenue Code (for example, 401(k) plans). A GIC is used primarily as a vehicle that yields a higher return than a savings account or United States Treasury securities. GICs are sometimes referred to as funding agreements although this term is often reserved for contracts sold to nonqualified institutions. The term should not be confused with a guaranteed investment certificate, a product sold by Canadian banks that is known by the same acronym.

As an example, funds obtained through a municipal bond issuance will generally take time to be drawn down. Depositing the bond proceeds in a GIC gives the bond issuer the liquidity of having the funds available while earning a higher rate of return than it would earn in a money market account. GICs were considered safe vehicles since most insurance companies offering them were rated in the AA to AAA range.

On December 2, 1994, the district issued $32.6 million in variable rate certificates of participation (COPs) to construct numerous capital facility projects. The COPs repayment structure was designed so the district would begin making annual repayments of principal and interest to the paying agent, Anchor National Life Insurance Company, in 1996. However payments to certificate holders from 1995 through 1999 were only for capitalized interest. Beginning in 2000, principal and interest payments were to begin. During the initial period, the funds held by the trustee for repayment, as well as the project funds, were to be invested with Anchor National Life Insurance Company according to a contract entitled "Funding Agreement 4463".

The district would provide funds for investment purposes and in return, Anchor National Life would pay a guaranteed investment rate of 7.75% annually. This contract was made outside the documents utilized for the sale of the COPs, but was approved by all parties including the trustee.

The GIC's term is comprised of six, five-year agreements, each renewing automatically upon the expiration of the previous one. The initial agreement began December 2, 1994; with the final agreement to terminate on December 1, 2024. The interest earnings generated by the GIC would allow the district to discount its future annual payments to the paying agent for the retirement of the COPs. The GIC maximum amount that could be invested was limited by the amounts placed with it upon the sale of the COPs. Based on the trustee receipt of proceeds, Anchor National would have received approximately $30,888,199.89 for investment purposes. Those funds were comprised of the amounts allocated for the lease payment fund for capitalized interest, and for the construction and acquisition fund.

COPs

In 1997, the district issued $53,450,000 in COPs for advanced refunding of the 1994 COPs and a current refund of 1996 COP issuance. Sufficient funds with instructions from the 1997 sale were placed with the trustee for use to repay certificate holders and retire the obligations and as they came due in accordance with the refunding plan. The district utilized its own resources to pay the annual obligation arising from the 1997 issuance. From 1997 to 2009, the guaranteed investment contract was utilized for the 1997 COP issuance as the investment vehicle for the debt service fund.

In November 4, 2008, district voters authorized the issuance of up to $297,500,000 in general obligation bonds for numerous projects, including the retirement of past financing obligations for college facilities. On August 1, 2009, the district issued Series A and B bonds totaling $66,004, 962.90 for several projects including the retirement of the 1997 COPs. With the sale proceeds, the district was provided with sufficient funds to retire the entire 1997 COP, removing an annual payment obligation from the budget. In addition, the district had accumulated funds from differing unrestricted resources and placed them in fund 29-debt service fund. These funds were invested utilizing the GIC.

At the end of the 2009-10 fiscal year the debt service fund contained $21,598,768, which was no longer required for the retirement of the 1997 COPs because of the sale of and repayment from general obligation bonds. The funds remained in fund 29, earning interest through the GIC and growing to $23,299,941 at the end of 2010-11. In 2011-12, the funds were transferred from fund 29 to fund 39-special reserve fund-GIC because of a finding in the district audit that found that there was no debt to retire from this fund, and retaining the funds was in conflict with appropriate accounting standards. At the end of the 2011-12 year, the fund balance had increased to $25,126,473 and is anticipated to reach $26,946,273 on June 30, 2013.

Because of proper financial planning over many years, the district has a special reserve fund that will be the equivalent of 55.1 % of its anticipated 2013-14 unrestricted general fund revenue. In addition, the district has an investment agreement that generates interest earnings at a rate of 7.75%.

Based on the current fund balance, the district earns $5,332 per day, $159,958 per month or $1,919,502 annually from this investment. In contrast, the San Bernardino County treasurer yielded .52% for the first quarter of 2012-13, and the Local Agency Investment Fund (LAIF) yielded .35% for the same period because of current market conditions.

Based on these unique circumstances, the district should consider the special fund as a source to offset operating shortfalls. Because these are one-time funds, the district should consider them as a means of generating additional revenue. The concept would be to continue utilizing the GIC for its remaining term and continue to invest the fund balance as of June 30, 2013 to generate additional revenue for purposes identified by the governing board during 2013-14 budget development.

Recommendations

The district should:

1. Request that the governing board adopt a policy renaming fund 39-GIC to a fund that reflects its goal and purpose. These funds are named and referred to as an endowment fund, special revenue enhancement fund, or some other name that acknowledges the intent.

2. Request that the governing board adopt a policy consistent with Government Code 53600 et seq. for the investment of the fund's principal. The policy should include other options, including the use of the GIC, that allows flexibility if the investment market improves.

3. Request that the governing board adopt a policy to limit the use of the fund components to the fund's interest earnings only. Such a policy should also stress the need to maintain the principal balance in the fund, in addition to an allowance to increase the principal balance in future years if economic conditions improve.

Appendices

A. Salary Comparison

B. Study Agreement

Appendix A. - Salary Comparison

Position	College	Step 1	Top step
Custodian	Antelope Valley	16.54	20.10
	Desert	16.04	23.70
	Mt San Jacinto	11.69	16.19
	Solano	14.72	18.32
	Victor Valley	16.04	20.43
Secretary	Antelope Valley	17.77	21.60
	Desert	15.28	22.57
	Mt San Jacinto	14.44	19.98
	Solano	16.82	20.91
	Victor Valley	18.12	23.13
Grounds worker	Antelope Valley	17.14	20.84
	Desert	16.04	23.70
	Mt San Jacinto	14.95	20.70
	Solano	16.04	19.96
	Victor Valley	18.12	23.13
Accountant (beginning)	Antelope Valley	16.54	20.10
	Desert	17.68	26.13
	Mt San Jacinto	13.46	18.63
	Solano	18.34	22.86
	Victor Valley	19.52	24.91
Police Officer	Antelope Valley	22.06	26.81
	Desert	18.57	27.43
	Mt San Jacinto	21.24	29.41
	Solano	19.11	23.91
	Victor Valley	22.10	28.19
Maintenance worker	Antelope Valley	19.10	23.22
	Desert	19.50	28.81
	Mt San Jacinto	19.80	27.41
	Solano	16.04	19.96
	Victor Valley	22.10	28.19
Accountant (top)	Antelope Valley	24.57	29.87
	Desert	20.48	30.25
	Mt San Jacinto	22.79	31.55
	Solano	20.04	25.06
	Victor Valley	25.62	32.69
Technology administrator	Antelope Valley	31.62	38.43
	Desert	27.43	40.54
	Mt San Jacinto	25.58	35.40
	Solano	28.72	36.00
	Victor Valley	28.98	36.97

Appendix B. - Study Agreement

FCMAT
FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM
CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
August 17, 2012

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Victor Valley Community College District, hereinafter referred to as the District, mutually agree as follows:

1. **BASIS OF AGREEMENT**

The FCMAT Team provides a variety of services to school districts, county offices of education, charter schools, and community colleges upon request. The Victor Valley Community College District has requested that the Team provide for the assignment of professionals to study specific aspects of the College operations, based on the provisions of Education Code section 84041. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, charter schools, community colleges, or private contractors. All work shall be performed in accordance with the terms and conditions of this Agreement.

The final report will be published on the FCMAT website.

2. **SCOPE OF THE WORK**

A. Scope and Objectives of the Study

The scope and objectives of this study are to:

The Victor Valley Community College District is requesting the FCMAT Team to assist in reviewing the 2012-13 budget. The Team will review the current and three subsequent fiscal years through 2015-16 and develop a multi-year financial projection. This component will provide recommendations to enhance revenues or reduce expenditures to help the college with the current structural budget deficit. The MYFP will align programs and staffing to a financial plan that will assist the college in sustaining its recommended reserve levels and long term fiscal solvency in accordance with the following scope of work:

1. Complete a fiscal health analysis of the district using the California Community Colleges Sound Fiscal Management Self-Assessment Checklist to determine the district's current level of financial risk.

2. Develop a multi-year financial projection for the current and three subsequent years without any demonstrated adjustments based on today's economic forecast to determine the level of commitment that will be needed to sustain the College's financial solvency. This will be a financial snapshot regarding the current fiscal situation and used as the baseline for determining the level of budget reductions or revenue enhancements, if any.

3. Determine up to four California community colleges to be used for benchmark comparisons

4. Based on benchmark colleges and VVCCD program priorities, review critical cost variances, including:

   a. Review the average class size, as determined by WSCH/FTE faculty formula
   b. Evaluate the class schedule based on student demand
   c. Review the faculty obligation and the amount of reassigned time appropriate for the enrollment, structure, and budget of the College
   d. Compare managerial positions as reported to IPEDS, and determine whether administration is organized effectively and if staffing levels are appropriate.
   e. Evaluate classified hourly expenses as compared to those of other colleges
   f. Determine the costs and program impacts of off-site centers and sites
   g. Review the costs of health benefits for active employees compared to those of other colleges
   h. Evaluate VVCCD for comparative analysis in terms of 50% law margins.
   i. Review the unrestricted general fund match for categorical programs and levels of encroachment, if any.
   j. Review FTES and determine if assignments are managed effectively and is the college maximizing its opportunities to generate additional funding

k. Evaluate the "Faculty Workload Calculation" per the terms of the contract between VVCCD and VVC CTA team. Provide recommendations regarding the methodology of the formula and its fiscal impact on the institutional budget. Full Time Instructor Equivalent (FTIE) is a standardized measure of faculty workload. FTIE does not represent an actual number of faculty members and is a conceptual measure of faculty workload.

l. Study and identify the release time, stipends, and any additional monies earned by the faculty that is beyond the faculty's 100% work load.

6. Identify Institutional restrictions such as past practices or services that have been identified as the "VVCCD culture" of the College including but not limited to collective bargaining contracts, legal constraints including the 50% law and the Full Time Faculty Obligation (FON)

7. Develop an implementation plan, including a proposed timeline

8. On the revenue component, the report will review:
   a. Enrollment opportunities, if any
   b. College foundation
   c. Grants and development

9. In 1996, the VVCCD invested twenty five million dollars in a Guaranteed Investment Contract (GIC) through Anchor National Life Insurance Company. The college is requesting that the FCMAT Team review the following and provide recommendations regarding best practices for the available use of these funds.
   a. Rate structure
   b. Sources and uses
   c. Term
   d. Investment options
   e. Interest earnings
   f. Board resolutions
   g. Quarterly, semi-annual or annual financial statements

B. <u>Services and Products to be Provided</u>

Orientation Meeting - The Team will conduct an orientation session at the District to brief District management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.

On-site Review - The Team will conduct an on-site review at the District office and at school sites if necessary.

1. Exit Report - The Team will hold an exit meeting at the conclusion of the on-site review to inform the District of significant findings and recommendations to that point.

2. Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.

3. Draft Reports - Electronic copies of a preliminary draft report will be delivered to the District administration for review and comment.

4. Final Report - Electronic copies of the final study report will be delivered to the District administration following completion of the review. Written copies are available by contacting the FCMAT office.

5. Follow-Up Support – Six months after the completion of the study, FCMAT will return to the District, if requested, to confirm the District's progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to the District in a FCMAT Management Letter.

3. PROJECT PERSONNEL

The study team will be supervised by Anthony L. Bridges, CFE, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

A. Eric D. Smith	***FCMAT Fiscal Intervention Specialist***
B. Marisa Ploog	***FCMAT Fiscal Intervention Specialist, CPA***
C. Julie Auvil	***FCMAT Fiscal Intervention Specialist, CPA***
D. Rory Livingston	***FCMAT Consultant***
E. To Be Determined	***FCMAT Consultant***
F. To Be Determined	***FCMAT Consultant***

Other equally qualified consultants will be substituted in the event one of the above noted individuals is unable to participate in the study.

4. PROJECT COSTS

The cost for studies requested pursuant to E.C. 42127.8(d)(1) shall be:

A. $800.00 per day for each FCMAT staff Member while on site, conducting fieldwork at other locations, presenting and preparing reports, or participating in meetings. The cost of independent consultants will be billed at the actual daily rate based on the provisions of Education Code section 84041.

B. All out-of-pocket expenses, including travel, meals, lodging, etc. The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.

Based on the elements noted in section 2 A, the total cost of the study is estimated at $30,000.

C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services are payable to Kern County Superintendent of Schools - Administrative Agent.

5. RESPONSIBILITIES OF THE DISTRICT

A. The District will provide office and conference room space while on-site reviews are in progress.

B. The District will provide the following (if requested):

1. A map of the local area
2. Existing policies, regulations and prior reports addressing the study request
3. Current or proposed organizational charts as of July 1, 2012
4. Current and two (2) prior years' audit reports
5. 2011-12 Unaudited Actuals
6. 2012-13 CCSF 311A Annual Financial and Budget Report
7. 2011-12 CCSF 311Q Quarterly Financial Status Reports
8. 2012-13 Budget Development Process and Assumptions
9. 2012-13 Adoption Budget including board presentations, agenda and minutes
10. Any Multi-Year Financial Projection for the current or prior fiscal year including assumptions
11. CCSF 323 Estimated/Actual Enrollment Fee Revenue Report
12. Per Education Code 84362, 50% Law Calculations, Exemption Requests and Reporting
13. Per Education Code 87482.6, Full Time Faculty Obligation Compliance

and worksheet for fall

14. All collective bargaining agreements for faculty, management and classified staff
15. Copies of documents related to the Guaranteed Investment Contract (GIC) through Anchor National Life Insurance including but not limited to the signed contract, amendments, monthly, quarterly or annual statements and board policy or administrative regulations related to the investment, uses and proceeds.
16. Any documents requested shall be provided to FCMAT in electronic format.
17. Documents that are only available in hard copy should be scanned by the district and sent to FCMAT in an electronic format.
18. All documents should be provided in advance of field work and any delay in the receipt of the requested documentation may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's SharePoint document repository and all requested documents shall be uploaded by the district.

C. The District Administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report.

6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for key study milestones:

Orientation:	***September/October 2012***
Staff Interviews:	***to be determined***
Exit Interviews:	***to be determined***
Preliminary Report Submitted:	***to be determined***
Final Report Submitted:	***to be determined***
Board Presentation:	***to be determined***
Follow-Up Support:	***if requested***

7. **CONTACT PERSON**

Name of contact person: G.H. Javaheripour, Vice President of Administrative Services

Telephone: (760) 245-4271 FAX: (760) 243-2781

E-Mail: java@vvc.edu

08-21-12

Dr. Christopher O'Hearn
Superintendent/President
Victor Valley Community College District

Date

August 17, 2012

Anthony L. Bridges, CFE
Deputy Executive Officer
Fiscal Crisis and Management Assistance Team

Date