

FISCAL RESPONSIBILITIES FOR
CALIFORNIA COMMUNITY COLLEGE TRUSTEES

SUPPLEMENT # 2

LEADERSHIP BENCHMARKING FOR TRUSTEES

By

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The dire financial realities facing California's Community Colleges has created an environment in which Trustees are sometimes drawn into making managerial decisions or overwhelmed by the drastic situation and not properly engaged in leading the college district. In addition, unintended consequences are occurring such as colleges being placed on "Warning" status by the accrediting commission due to the trustees' lack of leadership, especially as it regards the District's financial responsibilities. Boards of Trustees throughout the state are struggling with how to prevent micromanaging their district and yet accomplishing the changes necessary to respond to the dire circumstances colleges now find themselves in due to the state's budget problems. This paper is intended to provide trustees with a tool they can use to lead their college district and not be criticized for micromanaging.

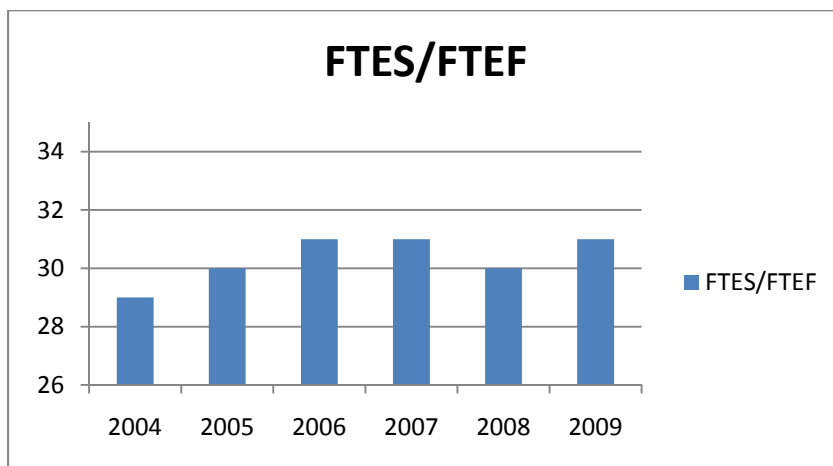
A simple reminder to differentiate between leadership and micromanaging is in order. Trustees should remember that Boards establish the "What" to be accomplished and do not decide on the "How" something is to be accomplished. And in order to assure the "What" is being accomplished the Board needs to develop measurements (benchmarks) that can be used to determine if their goals are being effectively accomplished. As an example, the Board could establish a budget goal of limiting the District's unrestricted expenditure budget for salaries and benefits to be less than 83% of the annual unrestricted revenues (83% is the most recent California statewide average). The Board establishes "what" it wants in the annual budget and the staff has the authority and responsibility to determine "How" to achieve that goal. The Board then can check for compliance in the annual budget, the quarterly financial reports and thru the annual financial audit. This is probably the most critical financial benchmark Trustees should have reported on thru the budget and annual audit process. An example of this calculation would be to divide the sum of budget line 1000 (Total Academic Salaries),

line 2000 (Total Classified Salaries), and Line 3000 (Total Employee Benefits) by the Total Expenditures amount. Sample: Line 1000 of \$25,000,000 plus Line 2000 of \$18,000,000, plus Line 3000 of \$19,000,000 for a total of \$62,000,000 divided by the Total Expenditure Budget of \$75,000,000 for a result of 82.66%

Other financial benchmarks that Trustees may find useful are: the Workload Efficiency rate, the rate of annual debt service payments, the facility condition index, the growth of the annual cost of health insurance, the percentage of contingency reserve, and the unfunded liability for retiree's health insurance and the cost of the annual payment for such. Also important are the quarterly expenditure rates as they compare to the percentage of the fiscal year completed. These possible benchmarks are explained in the following section.

FINANCIAL BENECHMARK DESCRIPTIONS:

Workload Efficiency Rate. State funding is based on an efficiency rate of 35 student FTES to 1 faculty FTE. Having an efficiency rate higher than 35 would mean that your District is more efficient than the State funding level and your District is money ahead. However, having an efficiency rate below 35 means that your District is spending more money than the State is funding you for student education. You can also measure the number of students per section to measure efficiency of your academic program. While a single year rate is important, it is more important that you view the rate over a five to ten year period to determine if your District is improving or losing money. There is no established requirement for this number to be reported to the Board, however, the trustees could asked for it as part of their annual budget process as well as during the annual financial audit of the district. The following is a sample chart describing this benchmark.



Rate of Annual Debt Service Payments. Historically the financial benchmark for a district's annual debt service expenses is to be less than 1½% of annual unrestricted

District revenues. A District having an annual debt services payment greater than 1½% could be considered a potential cash flow problem for the District. While this number has historically been associated with capital improvement projects not funded by special tax revenues, Trustees may also want to include the cost of any annual debt service payments required to fund the unfunded liability associated with the cost of health care for retirees. Trustees may be surprised to find that when taken together these costs may exceed 1½% of annual unrestricted District revenues. If this is the case, the Trustees may wish to establish a financial goal of reducing such costs to be below 1½%. Debt service payments are typically described in Line 7100 of the District's Annual Budget. An example of this calculation would be to divide the amount reported in Line 7100 (\$400,000) by the Total Expenditure Budget amount (\$75,000,000) for a result of 0.5%.

Facility Condition Index. While many of our colleges have been able to reduce the costs of deferred maintenance of their facilities thru the use of capital outlay bond measures to build new facilities and eliminate many of the older facilities or the repair of deferred maintenance items, the issue of deferred maintenance has not been completely eliminated. National facility organizations have developed standards and suggested goals for colleges and universities. Having a Facility Condition Index (deferred maintenance rate) of greater than 30% is considered to have a physical plant in poor condition. The Facility Condition Index (deferred maintenance rate) is determined by dividing the estimated cost of all repairs that have been deferred by the total value of the District's physical plant. A larger number indicates a poorer the condition of your facilities and the poorer the condition of your facilities the higher the cost of annual emergency repairs and utilities. There is no reporting requirement for this calculation but a Trustee Board could establish a goal and request an annual report on the condition of the facilities as part of its annual budget discussions. An example of this calculation would be to divide the estimated total cost of deferred maintenance (\$89,000,000) by the Total Estimated Value of the District's Physical Plant (\$490,000,000) for a Facility Condition Index of 18.1%.

Multi-year trend cost of health insurance. Many Districts are discovering that their annual cost of employee health insurance has doubled in the past ten years and is now a significant portion of their annual expenditure budget. The cost could equal ½ or more of the total cost of District benefits and close to or exceeding 10% of the annual unrestricted fund expenditure budget. Again, there is no requirement for this number to be reported on an individual basis to the Board, although it is part of the District's annual budget and is reported in the District's quarterly financial report and in the District's annual financial audit. However, a Board could establish a goal to limit the growth of such costs and that the Board be provided a measurement of the rate of increase as part of its annual budget process. Districts can obtain assistance from the California

Education Coalition for Health Care Reform to identify ways to help reduce and or limit costs increases for health insurance.

Contingency Reserve Rate. Historically the state has recommended Districts maintain a contingency reserve of 5% of their annual expenditures. During the recent financial downturn there has been discussion of reducing the rate to 3%. However, the accrediting commission still uses the 5% reserve level to evaluate the financial condition of a District. The way that this contingency requirement is accounted for by a district is up to each district. Some districts account for the contingency in a separate expenditure line item (Line 9710 – Reserve for Contingency) or within the District's ending fund balance. Irrespective of how the contingency reserve is identified in the District's Annual Budget the Trustees' responsibility is to assure that a reserve is provided for in the budget and the amount exceeds the Board's goal for a reserve. Some Districts have establish budget goals for a higher than 5% reserve in order to provide sufficient cash flow funds for the beginning of the following fiscal year when we have incurred late state funding payments and must either rely on loans or fund balances to pay the District's required expenditures. This number must be reported on in the District's annual budget and thru the annual financial audit as well as in each of the District's quarterly financial reports. This benchmark is calculated by dividing the Annual Budget Line Item 9710 (\$5,000,000) by the Total Expenditures Line Item (\$89,000,000) for a result in our example of 5.6%.

Value of Unfunded Liability for Retirees' Health Care. Recent accounting standards changes now require each District to complete an actuarial valuation of the potential funding needed to pay for the health care insurance costs for District retirees. In a few Districts this is not an issue or has a minimal costs due to benefit limitations already in place. However, in some Districts the amount of the unfunded liability may be valued at 50% or higher of the annual revenues received by the District. In such cases the District cannot quickly fund the potential costs and must develop a plan for funding this liability over a reasonable period of time. The goal for the trustees should be to have a declining unfunded liability over a reasonable period of time. There are no established standards for this and therefore the Board is at liberty to decide for itself how much of the unfunded liability should be paid off each year. Trustees should request an annual report describing the unfunded liability along with the payment plan for its complete funding. The District is required every two years to complete a new actuarial study and the results should be provided to the Board in order to assure that the unfunded balance is declining and not increasing.

Quarterly Benchmarks. A quarterly financial report is required to be provided to the Board of Trustees and must be available to the public. Trustees can utility such a report to determine if the District's expenditures are substantially exceeding the District's revenues and whether the District's expenditures are exceeding the

authorization provided by the Board in the annual budget based upon the portion of the year the report is describing. As an example are expenditures at or below 25% in the first quarter, and at or below 50% at the end of the 2nd quarter, and at or below 75% at the end of the 3rd quarter and finally below 100% at the end of the fiscal year.

Academic Uses of Funds. One area not that well measured at the present is to assign and then report on the percentage of the budget to be allocated for each major academic area such as job training, or transfer education, or basic skills training. A Board can lead the direction of a college if it were able to allocate a measurable portion of the annual budget for the specific purpose such a Basic Skills education. By establishing goals in each academic area the Board could decide on and foster the type of college it wished to be. As an example, a District funding a majority of its academic funds to Basic Skills training and work force development training could be a distinctly different type of college as one that would focus more funding on transfer education or on completion of AA/AS degrees. The Board could set a goal of 60% of its available funding to go to support Basic Skills and Work Force Development training and then thru the annual financial audit process determine the impact of such funding directives.

New Technology Funding. As Districts attempt to improve their sustainability efforts and reduce their costs of utilities the Board needs to address this issue with specific measures to assure itself and the community that the District's funds are being wisely used. Potential financial measures in this area are associated with the declining costs of utilities as well as the increasing costs of any associated debt services. The Board may wish to consider adopting goals for the required cost savings before approving a sustainability project. Another increasing cost issue is the cost of computerization of our organizations. The Board may wish to develop standards for how much is to be allocated each year for the implementation of new technology as well as the annual cost for the maintenance of the existing computer systems. Such costs are sneaking up on us to become very significant.

The above benchmarks are specifically financial in nature and Trustees may wish to establish goals and measures for other District activities in order to assure the accomplishment of such goals. All Districts these days have developed Strategic Plans and Educational Master Plans and possibly Facilities Master Plans, Technology Master plans and possibly others. It is just as important to develop benchmarks for each of these other goals that are reasonable and associated with the intended goals of the plan. As an example, for the Educational Master plan it may be necessary to develop graduation goals, transfer goals, retention rate goals, movement from Basic Skills to graduation or certificate completion programs and accomplishment, and goals for the completion of student learning outcomes or changes resulting from the study of such outcomes. In the area of Facility goals the Board could look at utilization goals, utility efficiency goals, and linkage to the goals of the District's education master plan. Again,

each portion of the District's strategic plan should have a set of goals and associated benchmarks / measures that are evaluated on a periodic basis and reported on to the Board of Trustees.

In conclusion, the use of such benchmarks should be to help the Board determine if the "What" that they have established for the District is being achieved or not. The "How" such programs are implemented are the responsibility of the others in the District (such as the CEO, the management staff and faculty of the college.)