Consideration of the 15 bulleted items on the State Chancellor’s Office “Sound Fiscal Management Self-Assessment Checklist” (#IID-24) reveals that the College substantially meets the fifteen indicators of fiscal health.

The College’s August 2014 self-evaluation with respect to each of the fifteen areas in the checklist is as follows:

1. Deficit Spending - Is this area acceptable? Yes, spending is under control.

   - Is the College spending within their revenue budget in the current year? Yes. Although there exists a small $19,000 general fund budgeted loss on the 2014-15 Tentative Budget, the fund balance percent actually increases due to a reduced budget overall. Given conservative budgeting practices, this budget is very close to balanced and is not out-of-control. However, over the three year budget forecast, it is clear that enrollments must grow for the College to avoid additional reductions-in-force (RIFs) and cuts.

   - Has the College controlled deficit spending over multiple years? Yes, the College was depleting its fund balance and reducing its fund balance percentage in prior years. However, with multiple cost saving employee reorganizations/RIFs and negotiated payroll cuts, the College has reduced spending and the fund balance percent has stabilized and is slowly increasing. To maintain control, the College must stabilize and grow enrollments over the next three years.

   - Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions? Yes, deficit spending has primarily been controlled through spending cuts, including across-the-board payroll concessions.

   - Are College revenue estimates based upon past history? Yes. Revenue estimates have been created with conservative procedures to avoid inflated or unrealistic estimates. The revenue estimate is reviewed and recommended to the President/Superintendent by the Budget Planning Committee. The revenue forecast shows a need to stabilize and grow student numbers to meet inflationary growth in the current service level.

   - Does the College automatically build in growth-revenue estimates? No

   Beginning in 2011-12, the College stopped budgeting with assumptions of growth funding. The BPC has reviewed forecasts with growth, but those forecasts have also included a zero-growth and/or enrollment/revenue loss scenarios. It is appropriate to answer “No” to this question as sustainable enrollment growth funding has not been coming from the State for several years, and the College has a recent history of flat or contracting enrollment.

Embracing technology as a driver of institutional efficiency is one key to long term fiscal stability and avoiding deficit spending. To cover annual cost increases for salaries, health and welfare benefits, and other personnel expenditures, such as increased PERS and STRS mandatory retirement payroll costs, as well as inflationary growth in operating expenditures, the College relies on three major drivers of resource growth: The State funded cost of living adjustment (COLA), funded student enrollment growth, and increased efficiency. For the 2014-15 budget, the 0.85% (less than 1%) State COLA will not be sufficient to cover cost increases, and the College is not projecting sufficient student growth to fully offset increases to the
expenditure budget. College administration estimates that a 1.6% to 2.0% annual COLA is necessary to cover annual inflationary creep in the expenditure budget. Therefore, the College must use the combination of the minimal State COLA, plus stable enrollments to modest enrollment growth, plus improvements in operational efficiency that result in cost savings, or else risk creating a new structural budget deficit.

Investments in technology are helping to improve operational efficiency and reduce costs. For example, implementing the Cisco Telepresence solution for synchronous delivery of course content to multiple locations simultaneously will allow the College to leverage faculty costs over a larger number of students per course section. Other technology solutions have been implemented and are in process with a goal to improving operational efficiency and reducing costs. As a result, the College is investing in technology to realize overall lower total cost of ownership (TCO).

2. Fund Balance – Is this area acceptable? Yes.

- Is the College’s fund balance stable or consistently increasing? Yes. Although there exists a small $19,000 general fund budgeted loss on the 2014-15 Tentative Budget, the fund balance percent actually increases due to a reduced budget overall. Given conservative budgeting practices, this budget is very close to balanced and is not out-of-control. The fund balance as a dollar figure has been falling, but the fund balance percent is improving due to reduced overall expenditures. However, it is important for long term fiscal stability for the College to stabilize not only the fund balance percent, but also the fund balance dollar amount. To avoid more RIFs and budget cuts, the College must improve its FTES numbers over the three year budget forecast.

Review of the State Chancellor’s Office fiscal trend analysis reports reveals that the Redwoods Community College District is one of only nine districts to report an improved fund balance percent from 2012-13 to 2013-14 out of 72 total districts reporting. In 2012-13, the College’s 5.0% fund balance percent ranked the lowest, 72 out of 72, among California community colleges, but improved slightly to 64 out 72 colleges by 2013-14. This data indicates that while improvements are noted, the College must, over the next several years, continue to increase its fund balance up to 10% as noted in board policy and administrative procedure 6200 Budget Preparation. This modest goal is still below the state wide fund balance average of 13.4%.

- Is the fund balance increasing due to on-going revenue increases and/or expenditure reductions? Yes, the College was depleting its fund balance and reducing its fund balance percentage in prior years. However, with multiple cost saving employee reorganizations/reductions-in-force and negotiated payroll cuts, the College has reduced spending and the fund balance percent has stabilized and is slowly increasing. If enrollments remain stagnant, then the College will need to continue austerity measures and contract the current service level through RIFs and other budget cuts.

3. Enrollment - Is this area acceptable? Partial Yes

- Has the College’s enrollment been increasing or stable for multiple years? No, enrollments have been contracting. The 2014-15 Tentative Budget forecasts basically flat enrollments, but the College lost enrollments for several years prior to that. Thus, current
enrollments stand below historic levels. The College has several initiatives intended to increase enrollments and improve efficiency long term: Implementing Cisco Telepresence for synchronous course delivery to multiple locations, expanding services at prisons and jails, expanding non-credit course offerings, expanding offerings at new locations, such as local high schools, and reviewing certain academic programs for long term viability. It is critically important for the College to continue its efforts to stabilize and increase student enrollments and continue tight cost controls as keys to long term fiscal stability. Student enrollment growth along with the State funded COLA, and improvements in operational efficiency are the three keys to increasing resources necessary to cover annual inflationary cost increases. College administration estimates that a 1.6% to 2.0% annual revenue growth is required to cover annual expenditure cost increases, or the College must reorganize to cut costs, or else the College risks generating a new structural budget deficit. Administration and most campus constituencies support these actions to contain any structural budget deficit.

The College is also negotiating with the Mendocino-Lake Community College District on potentially redistricting to Mendocino-Lake College the area serviced by the College of the Redwoods Mendocino Educational Center. Public meetings have been held in Fort Bragg and both Boards and the State Chancellor’s Office are involved in the discussions. College administration believes that this change may provide more efficient services to students in the area. However, administration continues to update its contingency plans to ensure that the center can be operated efficiently by the College as well, if necessary.

- Are the College’s enrollment projections updated at least semiannually? Yes
- Are staffing adjustments consistent with the enrollment trends? Yes, staffing has been reduced as enrollments contracted over several years. Staffing will need to be reduced further if enrollments do not begin to rebound over the next three years.
- Does the College analyze enrollment and full time equivalent students (FTES) data? Yes
- Does the College track historical data to establish future trends between P-1 and annual for projection purposes? Yes
- Has the College avoided stabilization funding? Partial Yes. The Tentative Budget does not project the College being on enrollment stabilization funding in 2014-15. However, the College has been on enrollment stabilization funding for three years prior and the forecast is for stabilization funding in 2015-16.

4. Unrestricted General Fund Balance – Is this area acceptable? Yes, the fund balance percent is above 5% and the 2014-15 Tentative Budget forecasts a slight improvement in the fund balance percentage.

- Is the College’s unrestricted general fund balance consistently maintained at or above the recommended minimum prudent level (5% of the total unrestricted general fund expenditures)? Yes, the fund balance percent is above 5% and is projected to slightly improve on the 2014-15 Tentative Budget. Previously, the fund balance percent fell below 5%, and the College initiated several cost reducing reorganizations/reductions-in-force (RIFs). Administration also met and conferred with representatives of its two
bargaining units and negotiated across-the-board payroll cuts from all employee groups. To continue to steadily grow the fund balance, the College must grow enrollments, find other resources and savings, or enact additional reductions in the budget.

- Is the College’s unrestricted fund balance maintained throughout the year? Yes.

5. Cash Flow Borrowing - Is this area acceptable? Yes

- Can the College manage its cash flow without interfund borrowing? Yes. At present the College is projecting to meet its cash flow needs without interfund borrowing.
- Is the College repaying TRANS and/or borrowed funds within the required statutory period? Yes

The College has participated in the Community College League of California TRAN offerings in prior years. Due to reduced State payment deferrals and the College’s improving fiscal condition, the College’s cash flow forecasts project either a small TRAN need or no TRAN will be necessary for 2014-15. Administration updates its cash flow forecast twice a year in preparation of determining whether or not to participate in the League TRAN.

6. Bargaining Agreements - Is this area acceptable? Yes. In addition to agreeing to permanent payroll concessions, both units agreed to other fiscal stability terms. For example, in years where the College’s unrestricted fund balance stands below 6%, the bargaining units have agreed to temporarily forgo any COLA in their salary steps regardless of what COLA the State funds. In years where the fund balance remains above 6%, then only the amount of any funded State COLA in excess of 1.6% will be loaded into salary schedules. This holds down cost increases in years when the fund balance percentage is near the minimum and allows the fund balance to recover faster. Also, the first 1.6% of any State funded COLA is available every year to help cover annual inflationary cost increases.

- Has the College settled bargaining agreements within new revenue sources during the past three years? No, the College settled both bargaining agreements with payroll concessions instead. A no answer here is appropriate.
- Did the College conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? Yes
- Did the College correctly identify the related costs? Yes
- Did the College address budget reductions necessary to sustain the total compensation increase? Yes. However, significant additional payroll cost reductions will be needed if enrollments do not begin to grow by 2016-17.

The College received no inflationary increase in State funding per full-time equivalent student (FTES) during 2010-11, 2011-12, and 2012-13. For 2013-14 and 2014-15 a 1.6% and 0.85% State COLA was implemented. Administration estimates that a 1.6% to 2% annual State COLA is necessary to cover annual expenditure budget cost increases. In 2013-14 and 2014-15 no COLA was applied to employee salary schedules, despite the State funding 1.6% and 0.85% annual increases respectively. All employees have agreed to permanently forgo the first 1.6% of any State COLA to help the College fund annual cost increases.
In prior years, the College created a structural budget deficit in part by funding certain employee steps, some cost of living adjustments (COLA), fully covering health and welfare benefits plan rate increases and pension costs, and increases in other payroll expenditures without sufficiently increasing the revenue budget. As a result, net revenue contracted and the fund balance was depleted below recommended levels. Through a series of reorganizations and reductions-in-force (RIFs), through negotiated pay concessions and other fiscal stability terms, the College eliminated the structural budget deficit. Below is a chart showing the history of certain payroll cost increases:

<table>
<thead>
<tr>
<th>Year</th>
<th>Unrestricted General Fund Salary Increases (Step and/or COLA)(^2)</th>
<th>Health and Welfare Benefits</th>
<th>PERS Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Admin/Mgr/Conf</td>
<td>Classified</td>
<td>Faculty</td>
</tr>
<tr>
<td>2007-08</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2008-09</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2009-10</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2010-11</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2011-12</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>2012-13</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2013-14</td>
<td>-9.0%/-8.7%/-6.5%</td>
<td>-6.5%</td>
<td>-8.7%/-8.0%</td>
</tr>
</tbody>
</table>

\(^1\)In 2013-14, the Board of Trustees also reduced their budget by 40% by suspending stipends and paying a portion of health and welfare benefits. No COLA was awarded in 2013-14. Employee steps were awarded, but step increases were more than fully offset by the agreed-upon payroll concessions.

\(^2\)In certain years one-time furloughs delayed the impact of cost increases for one year.

7. Unrestricted General Fund Staffing - Is this area acceptable? Yes

- Is the College ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses? Yes. The 2014-15 Tentative Budget shows a very small deficit based on conservative budgeting practices. Support from auxiliaries has been reduced to acceptable and sustainable levels, so the expenditure budget is covered by permanent funding sources. However, without increases in student enrollment numbers by 2016-17, costs will need to be cut again.

Beginning in 2011-12 the College stopped the past practice of budgeting all available fund balance in excess of the minimum 5% which may have resulted in permanent staff being paid with one-time funds.

- Is the percentage of College general fund budget allocated to salaries and benefits at or less than the statewide average? Yes, the College’s average was above the statewide average as noted on the State Chancellor’s Office Fiscal Trend Analysis reports, but dropped under the statewide average by 2013-14. The chart below summarizes the State Chancellor’s Office fiscal trend data:
State Chancellor’s Office “Sound Fiscal Management Self-Assessment Checklist”
August 2014 Update

<table>
<thead>
<tr>
<th>Payroll as a Percentage of Total Expenditures</th>
<th>2011-12 Actual</th>
<th>2012-13 Actual</th>
<th>2013-14 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redwoods</td>
<td>84.1%</td>
<td>84.7%</td>
<td>80.3%</td>
</tr>
<tr>
<td>Average of 30 smallest</td>
<td>81.9%</td>
<td>81.0%</td>
<td>79.9%</td>
</tr>
<tr>
<td>Average statewide</td>
<td>83.7%</td>
<td>83.2%</td>
<td>81.3%</td>
</tr>
</tbody>
</table>

8. Internal Controls - Is this area acceptable? Yes

- Does the College have adequate internal controls to insure the integrity of the general ledger? Yes
- Does the College have adequate internal controls to safeguard the College’s assets? Yes (#IIIID-26).

9. Management Information Systems - Is this area acceptable? Yes

- Is the College data accurate and timely? Yes
- Are the county and State reports filed in a timely manner? Yes
  Although occasionally a report has been tardy, there have been no major delays in report submissions.
- Are key fiscal reports readily available and understandable? Yes

10. Position Control – Is this area acceptable? Yes

- Is position control integrated with payroll? No. Position control is maintained through a database and a practice of requiring multiple approvals for all hiring. The College has not seen problems with this procedure.
- Does the College control unauthorized hiring? Yes
- Does the College have controls over part-time academic staff hiring? Yes

11. Budget Monitoring - Is this area acceptable? Yes

- Is there sufficient consideration to the budget, related to long-term bargaining agreements? Yes
- Are budget revisions completed in a timely manner? Yes
- Does the College openly discuss the impact of budget revisions at the Board level? Yes
- Are budget revisions made or confirmed by the Board in a timely manner after the collective bargaining agreements are ratified? Yes
- Has the College’s long-term debt decreased from the prior fiscal year? No. A no on this question is appropriate.
State Chancellor’s Office “Sound Fiscal Management Self-Assessment Checklist”
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- Has the College identified the repayment sources for the long-term debt? Yes
- Does the College compile annualized revenue and expenditure projections throughout the year? Yes

12. Retiree Health Benefits - Is this area acceptable? Yes

- Has the College completed an actuarial calculation to determine the unfunded liability? Yes
- Does the College have a plan for addressing the retiree benefits liabilities? Yes, Total Compensation Systems provides and actuarial report and a supplemental report to ensure a prudent funding level in the Employee Benefits Fund.

13. Leadership/Stability - Is this area acceptable? Yes

- Has the College experienced recent turnover in its management team (including the Chief Executive Officer, Chief Business Officer, and Board of Trustees)? Yes.

The College hired a permanent President/Superintendent about two years ago. Also, a State Special Trustee was appointed by the Board and the State Chancellor’s Office in the same timeframe. It is critical for long term fiscal stability to maintain continuity of the senior administrative team comprised of, at a minimum, the President, Executive Cabinet, and State Special Trustee. To stabilize this executive management team, the College might consider entering into multiyear employment and consulting agreements, as appropriate, and provide stronger monetary incentives for longevity. One step that has been implemented is the elimination of an executive salary schedule. A review of the College’s payroll structure revealed that the executive salary schedule included a smaller number of steps, but each step was of a larger magnitude, and thus provided no plan for increases several years out. This type of schedule might discourage employee stability and longevity in the administrative ranks as employees would “top out” early in their careers. This schedule was created in 2009, but prior to that, executive, management, and confidential employees were paid off a single schedule. At the May 7, 2013 Board of Trustees meeting, the executive salary schedule was eliminated and educational administrators returned to the administrative, management and confidential salary schedule. (P. 75 of http://www.redwoods.edu/District/Board/documents/May72013Packet.pdf). This Board action will provide incentives for longevity in the form of annual salary increases to administrators.

14. College Liability – Is this area acceptable? Yes

- Has the College performed the proper legal analysis regarding potential lawsuits that may require the College to maintain increased reserve levels? Yes
- Has the College set up contingent liabilities for anticipated settlements, legal fees, etc. N/A. The College has not identified any material items in this area.

15. Reporting – Is this area acceptable? Yes
• Has the College filed the annual audit report with the System Office on a timely basis? Yes
• Has the College taken appropriate actions to address material findings cited in their annual audit report? Yes
• Has the College met the requirements of the 50 percent law? Yes
• Have the Quarterly Financial Status Reports (CCFS-311Q), Annual Financial and Budget Reports (CCFS-311), and Apportionment Attendance Reports (CCFS-320) been submitted to the System Office on or before the Stated deadlines? Yes. On occasion the College has been tardy with a report, but no reports have been significantly delayed. Also, the College has communicated promptly with the Chancellor’s Office relative to deadlines.

Follow up on Previous Planning Agendas:

1. To avoid fiscal instability, the College will close the budget gap for 2012-13. In part, this will require successful negotiations with the labor groups relative to short- and long-term agreements. Short-term and long-term sustained expenditure reductions and increased revenue need to be identified and implemented for fiscal stability and accountability. August 2014 Update: Completed. However, the College will need additional payroll cuts by 2016-17 if enrollments remain flat.

2. To allow more time to negotiate budget savings solutions, the College needs to engage collective bargaining leadership earlier in the annual budget cycle. If necessary, negotiations should coincide with release of the BPC’s preliminary recommended draft budget plan, based on the Governor’s Preliminary Budget released in January. The College needs to work now to negotiate collective bargaining agreement language that provides sustained expenditure reductions and sustained-revenue increases. The College needs to avoid and stop deficit spending/financing. Increases in the expenditure budget need to be based on sustained local and/or State funding. Expenditure increases must be no more than proportional to the amount of available and sustainable resources identified; recognizing that operating costs such as utilities may consume a disproportionate share of any available budget resources and that an appropriate fund balance must be maintained. August 2014 Update: Completed and will continue scheduling negotiations earlier in the budget cycle.

3. While recognizing the needs of our students, the College needs to prioritize resource investments, as they become available, to initiatives that reduce the College’s long term operating costs and effectively reduce the College’s overall Total Cost of Ownership (TCO). Examples include: energy efficiency; automation; online/self-service student services; and strategic collaborations for cost savings; higher productivity and efficiency targets; cutting management payroll; and reducing expenditures in non-mission critical areas. August 2014 Update: Completed and in process on an ongoing basis.

4. The College must plan its annual budgets for budget savings, through sustainable revenue increases and sustainable expenditure reductions, to increase fund balance by at least 1% per year. The College must also plan its annual budgets over multiple years to
accumulate and sustain a fund balance in excess of 5%, subject to recommendations of the President/Superintendent and approval of such recommendations from the Board of Trustees. August 2014 Update: Revised plan completed – The College is committed to steadily improving the fund balance percent each year with multiyear budgeting, but not by 1% per year as infrastructure investments and addressing deferred maintenance require the College to increase expenditures for repairs and equipment. At the January 14, 2014 Board of Trustees meeting, the College revised its board policy and administrative procedure 6200 Budget Preparation to include the following requirements on fund balance (See p. 8 of http://www.redwoods.edu/district/board/documents/February42014packet.pdf):

The annual budget shall be reported to the Board at its September meeting as the Final Budget. Each year the Tentative and Final Budgets shall maintain an unrestricted general fund balance as follows:

If the fund balance is below 5.0%, the budget shall restore the year-end fund balance to 5.0%;

If the fund balance is below 10% but greater than 5.0%, the budget shall steadily increase the fund balance to a goal of 10% (equal to about 1.5 months of payroll expenditures); and

If the fund balance is greater than 10%:

The budget may maintain the fund balance or steadily reduce the fund balance to no less than 10%,

or may increase the fund balance further, but shall include an explanation of the need to accumulate an excess fund balance above 10% (i.e. as a reserve for potential mid-year cut in State funding, to fund a multiyear strategic initiative, etc.).

However, this action plan can only avoid additional cuts if student enrollment numbers improve. Otherwise, additional payroll reductions will be needed by 2016-17.