

Monterey Peninsula College

Report on Fiscal Stability

March 20, 2007

Index

	<i>pages</i>
I. Introduction	1
II. Background	2-4
a. Summary of all Funds	
b. Unrestricted General Fund Balance History	
c. Unrestricted vs. Restricted Operating Budgets	
d. Revenues by source	
e. FTES Dependent Income	
III. State Funding	5-6
a. COLA vs. CPI Comparison	
b. Projected State Budget Shortfalls	
c. State Budget Balancing Strategy	
IV. FTES	7-9
a. FTES History	
b. Credit vs. Noncredit FTES	
c. FTES from Instructional Service Agreements	
d. Percent Taught By	
e. Average Class Size	
V. District Expenses	10-14
a. Expenses by Major Object	
b. General Fund Expense Comparison	
c. Fringe Benefits Expense Comparison - % of General Fund Expenses	
d. Fringe Benefits Expense Comparison - % of Salaries	
e. Total Cost of Benefits	
f. Utilities Costs	
g. Employee Turnover Projections	
h. Faculty Salary Ranking Statewide	
VI. Budget Impact of New Construction	15
VII. Community Data and Projections	16-20
a. Housing Projections	
b. Cost of Housing	
c. Housing Affordability	
d. Population Projections	
e. Unemployment Rates – County vs. State	
f. Unemployment Rates for Cities in Monterey County	
g. County Employment by Industry	
h. Largest Growth Industries in County	
i. Employment Projections for Cities	
j. K12 Enrollments & Projections	
VIII. Summary of Major Fiscal Issues	21

I. Introduction

How adequate will future college resources be to provide quality educational experiences for students? This report is intended to answer this question by providing an analysis of the long-term fiscal stability of the District.

Simply put, the fiscal stability of the district requires a steady stream of revenue and the diligent management of resources. Projecting revenues and expenses for future years with any degree of accuracy would be pure conjecture; however, looking at factors that affect the district's fiscal status can provide an indication of long-term fiscal stability. Factors to consider would include enrollment and other revenues produced at the College, the economy in California, demographics in the local community, and cost trends for expenses.

II. Background

The District has a history of fiscal stability. In fact, during the state's recent financial crisis, the District not only avoided layoffs and maintained reserves, but increased employee compensation, completed two major construction projects, and received approval from local voters for a \$145 million Prop 39 construction bond. The Board has acted prudently to isolate the district from the chaos seen at some other public institutions, and the casual observer would not have known that a state financial crisis even existed

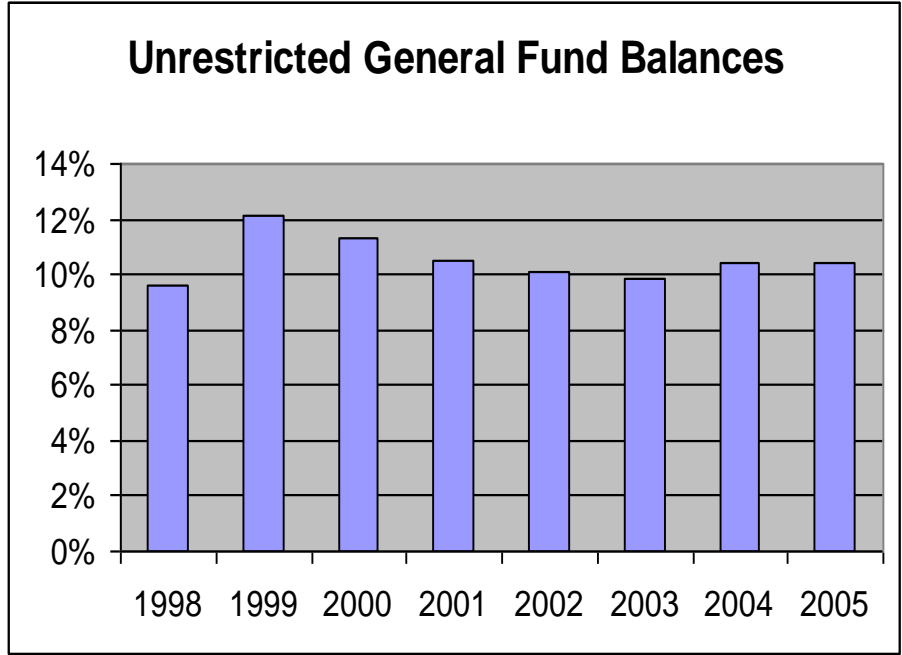
The District's finances are recorded in 7 major funds: General, Special Revenue (Child Development, Student Center, and Parking), Debt Service, Capital Outlay, Building, Self Insurance, and Fiduciary. Although all funds are important to the District's operations, this study will focus on General Fund revenues and expenses.

Funds	Beginning Fund Balance 7/1/2006	Budgets 2006-2007		Projected Fund Balance 6/30/2007
		Revenue	Expense	
General				
Unrestricted	\$3,801,326	\$37,999,699	\$37,968,603	\$3,832,422
Restricted	\$0	\$6,276,198	\$6,276,198	\$0
Special Revenue				
Child Development				
Unrestricted	\$0	\$450,958	\$450,958	\$0
Restricted	\$0	\$118,512	\$118,512	\$0
Student Center	\$0	\$270,600	\$270,600	\$0
Parking	\$162,153	\$456,000	\$454,340	\$163,813
Debt Service				
Student Center	\$0	\$21,225	\$21,225	\$0
Lease Payments	\$0	\$0	\$0	\$0
Capital Projects	\$1,480,738	\$7,051,699	\$8,532,437	\$0
Building	\$23,630,213	\$500,000	\$24,130,213	\$0
Self Insurance	\$3,562,711	\$6,370,158	\$6,370,158	\$3,562,711
Fiduciary				
Financial Aid	\$0	\$1,700,000	\$1,700,000	\$0
Associated Students	\$46,809	\$80,000	\$80,000	\$46,809
Scholarship and Loans	\$240,261	\$500,000	\$500,000	\$240,261
Trust Funds	\$257,867	\$400,000	\$400,000	\$257,867
Orr Scholarship	\$64,295	\$40,000	\$40,000	\$64,295
Total	<u>\$33,246,373</u>	<u>\$62,235,049</u>	<u>\$87,313,244</u>	<u>\$8,168,178</u>

Notes: Beginning Balance is prior to audit of 2005-2006 fiscal year end.

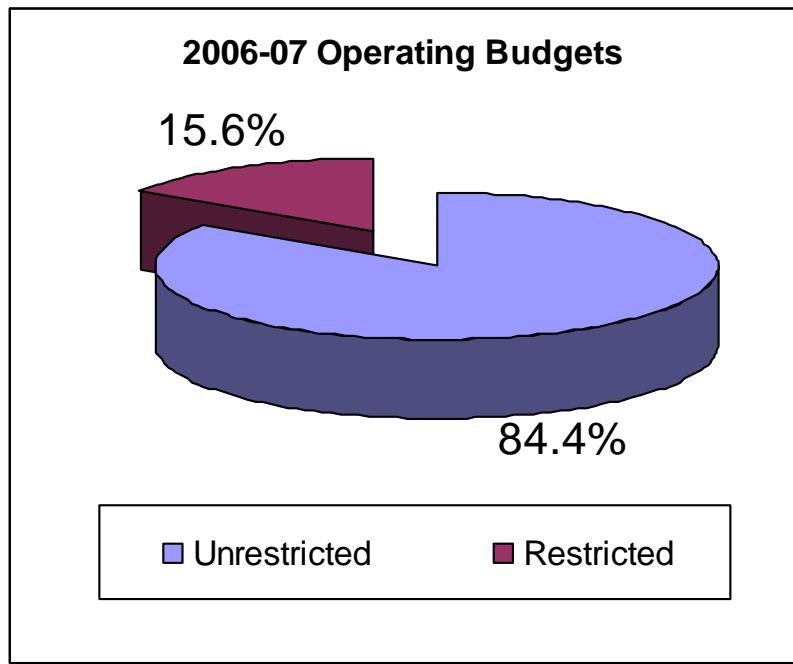
Ending Balance is calculated based on Beginning Balance and Budgets

The College has adhered to the District Board policy of maintaining a target reserve of 10% of Unrestricted General Fund revenues.

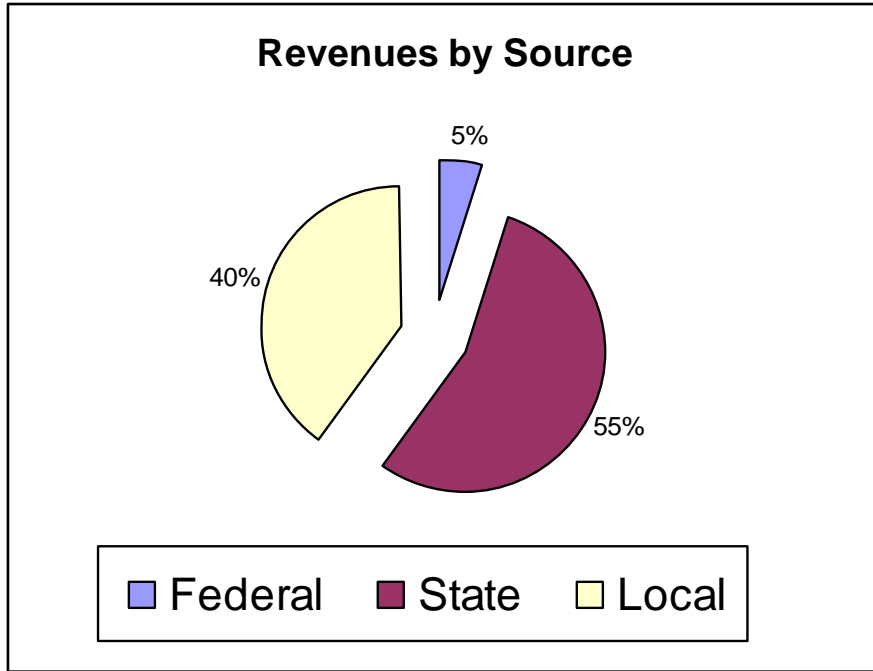


The District's Unrestricted General Fund reserve is currently considered adequate to absorb reasonable one-year unanticipated increases in expenses or decreases in revenue without adversely affecting the day-to-day operations.

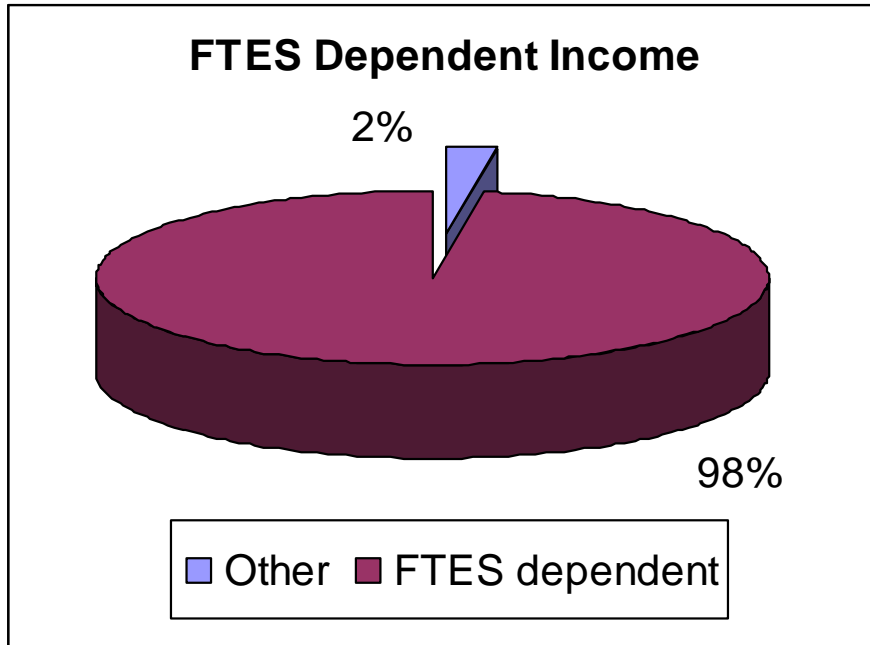
A significant portion (15.6%) of the District's operating budget is restricted and, the District has little, if any, ability to direct these funds for needs of the District other than specifically directed by the source. The net result is an increasing challenge for the District to respond to the institutions changing needs.



The primary source of unrestricted operating revenue comes from state funding which ties the District's budget to the State's economy and budget.



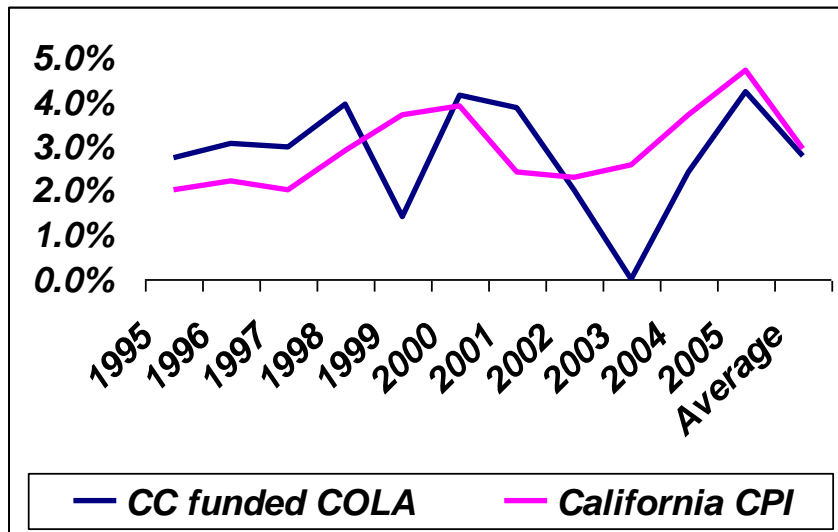
Enrollment measured as full time equivalent students (FTES) is the primary source of Unrestricted General funds. FTES is considered the most important factor in the district's long-term fiscal stability.



All but 2% of District revenue is FTES dependent.

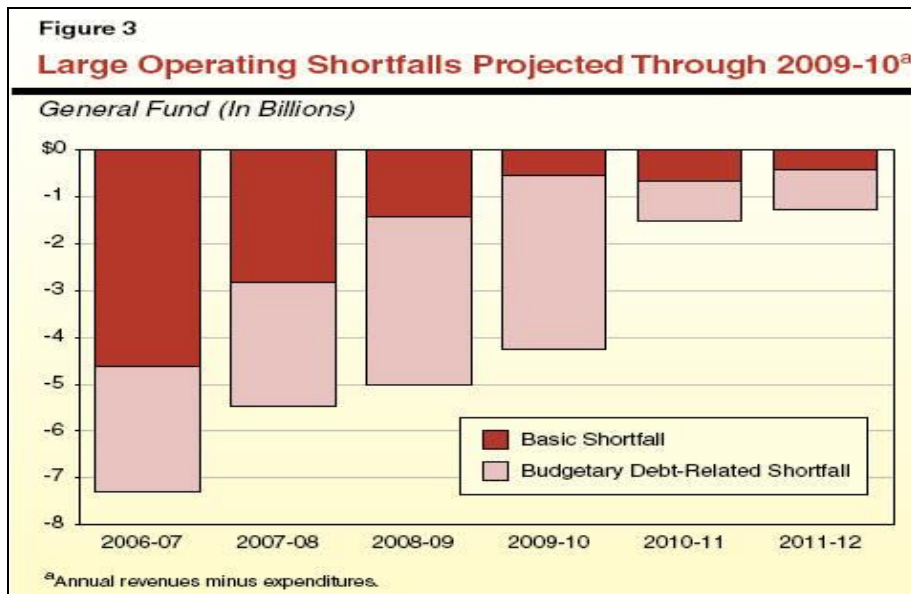
III. State Funding

State cost of living increases (COLA) provided to California community colleges have not historically equaled increases in the California Consumer Price Index (CPI).



- Over the past 11 years, the COLA provided to community colleges has not been the same as the CPI causing years with more difficulty meeting actual increases in expenses. The average for the past 11 years indicates a COLA of 2.8% compared to a CPI of 2.95%, a 0.15% difference. Compounding the amounts results in a COLA of 35.39% compared to a CPI of 37.59%, a difference of 2.18%.

Future state funding will continue to be problematic considering the structural imbalance projected for the state.



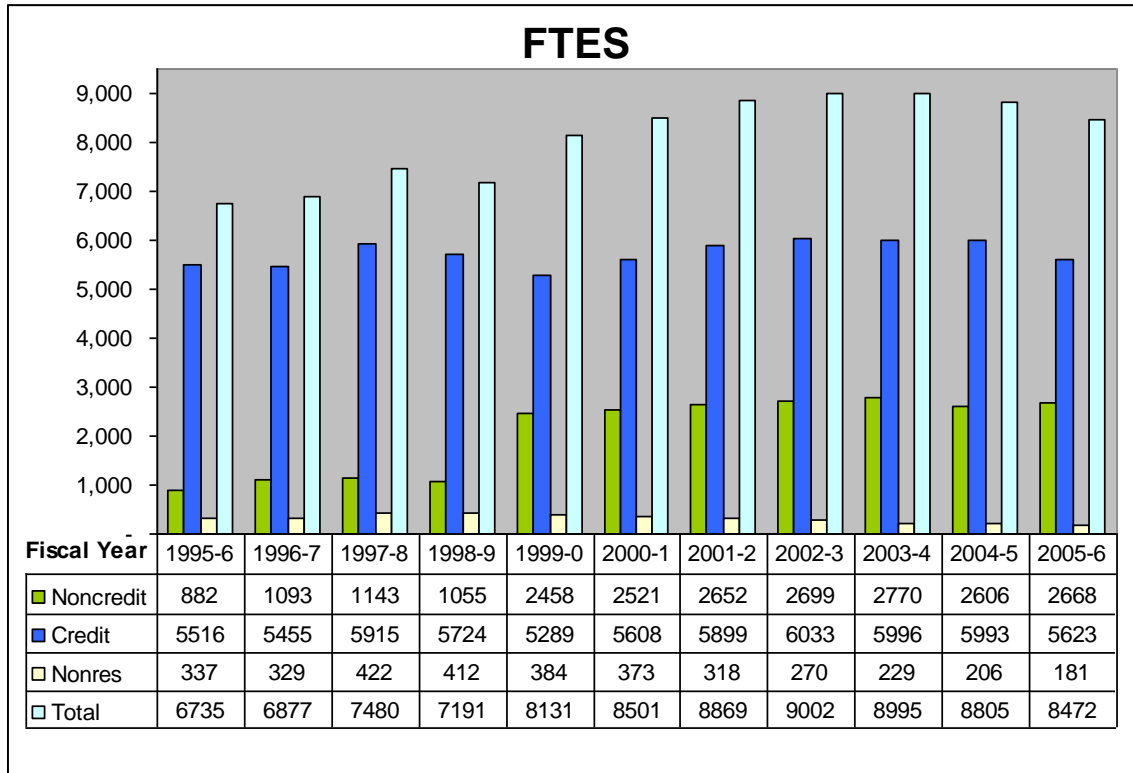
The State Legislative Analysts Office (LAO) provides the following strategies to solve the state's imbalance:

Elements of a Multiyear Budget Balancing Strategy	
✓	Budget Savings and Revenue Increases
	1. • Targeted program savings.
	2. • Cost-of-living adjustment reductions or suspensions.
	3. • Funding redirections.
	4. • Tax compliance, fees, and targeted revenue increases.
✓	Reduced Supplemental Repayments on Deficit-Financing Bonds
	5. • Continue regular schedule of debt payments.

- A number of these strategies would result in loss of funding for education.

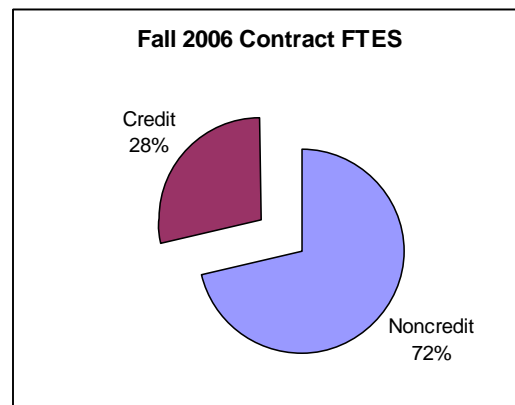
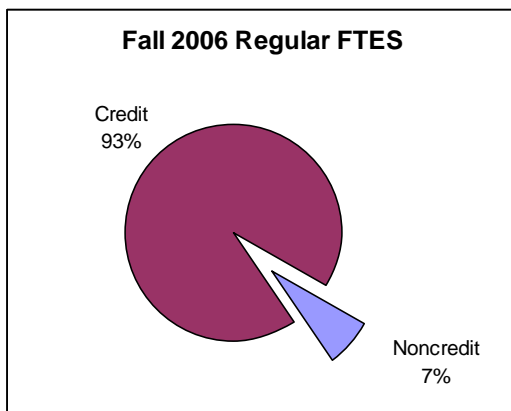
IV. FTES

The District has shown a decline in FTES the past 3 years.



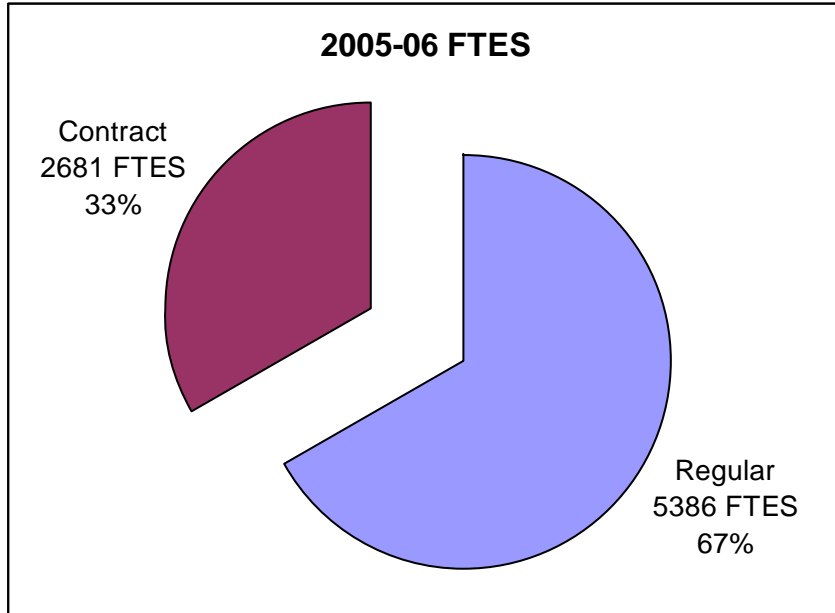
- An actual decline of 8.4% (759 FTES) has been experienced over the past three years (639 credit, 31 noncredit, and 89 nonresident).
- The District has borrowed 229 credit FTES from the Summer 2006-07 to report a smaller decline.
- The District's credit FTES has declined over the last 3 years, while noncredit FTES has remained relatively constant.

31% of the District's FTES is non credit.



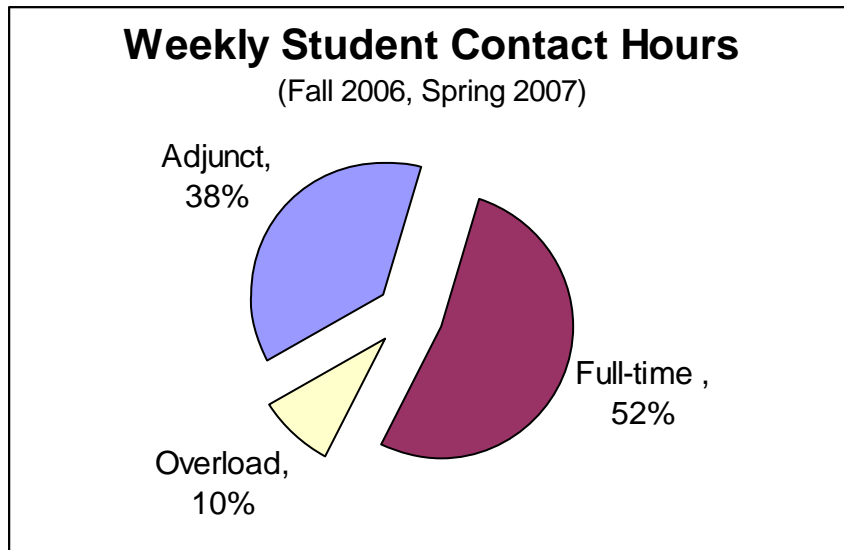
- The rate the state pays for noncredit is 60% of the rate for credit (\$2,626 vs. \$4,367).
- The majority of noncredit FTES is from Instructional Service Agreements.

Instructional Service Agreements (contracts) make up 33% of the District's (unfactored) FTES.



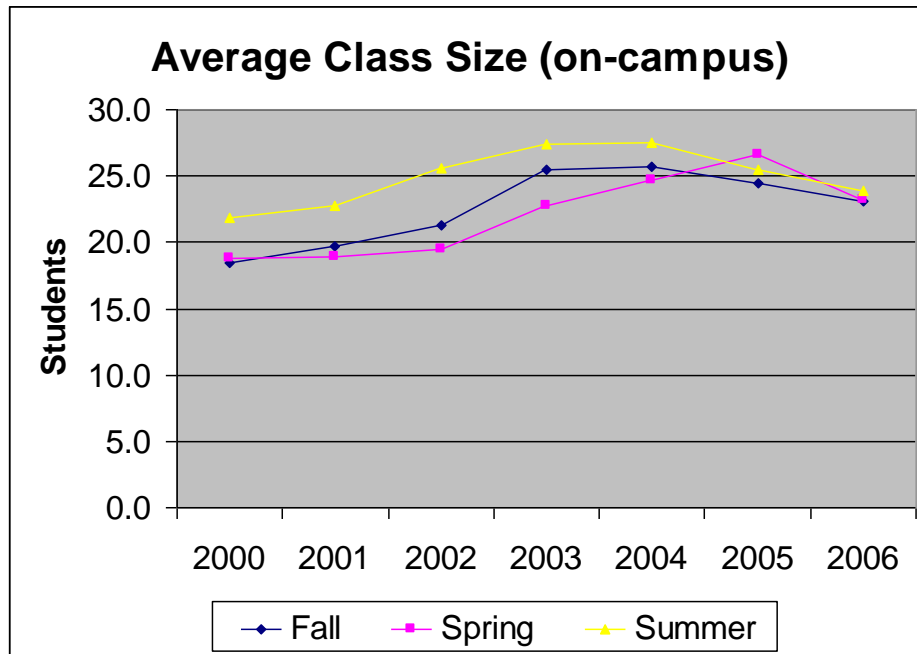
- ISA's have been a very cost effective way to generate revenue to meet institutional needs during periods that would otherwise have flat or declining enrollments. Revenue from ISA's is used to support many on-campus programs that would otherwise not exist or be significantly reduced.
- ISA's are subject to fluctuations greater than other types of FTES.

52% of the District's on-campus FTES is generated by full-time contract faculty as part of their regular load, 48% is generated by adjunct faculty or contract faculty with overloads.



- As at all community colleges, the compensation for full-time teaching faculty on a regular assignment exceeds the compensation for overload and adjunct teaching faculty. It requires a combination of the various work loads (contract, adjunct, and ISA's) to maintain a balanced budget.

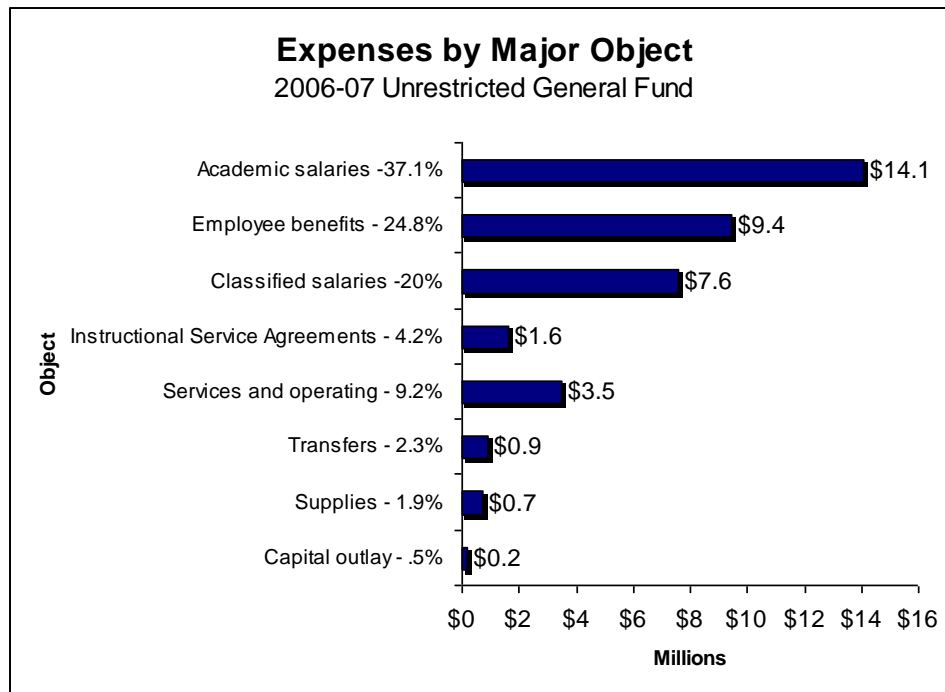
The Average on-campus class size is relatively small and has been declining over the past 3 years.



- The Average class size on campus for 2006 declined to 23.4 students and is a contributing factor to the decline in FTES.
- Revenues from Instructional Service Agreements allow the District to offer the smaller size classes and the ability to provide many student services.

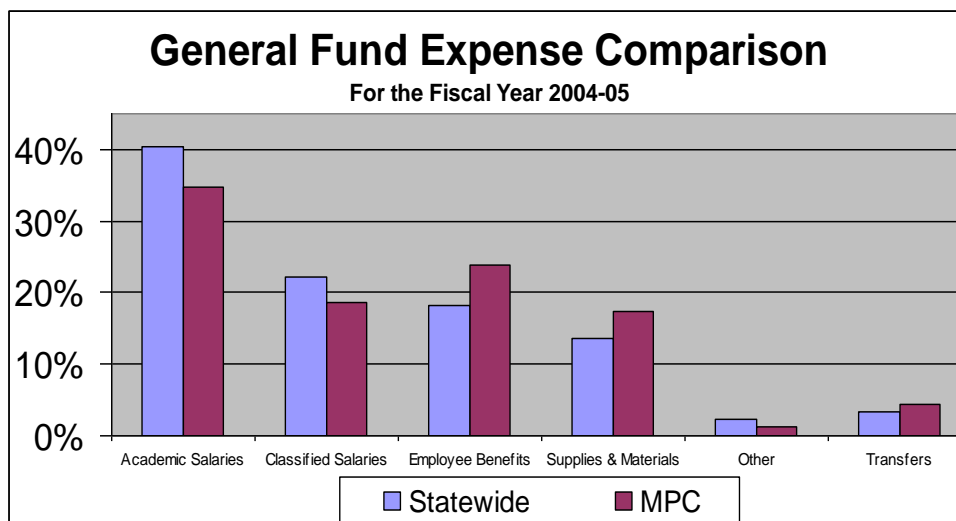
V. District Expenses

Expenses are primarily for people (salaries, benefits, and ISA's).



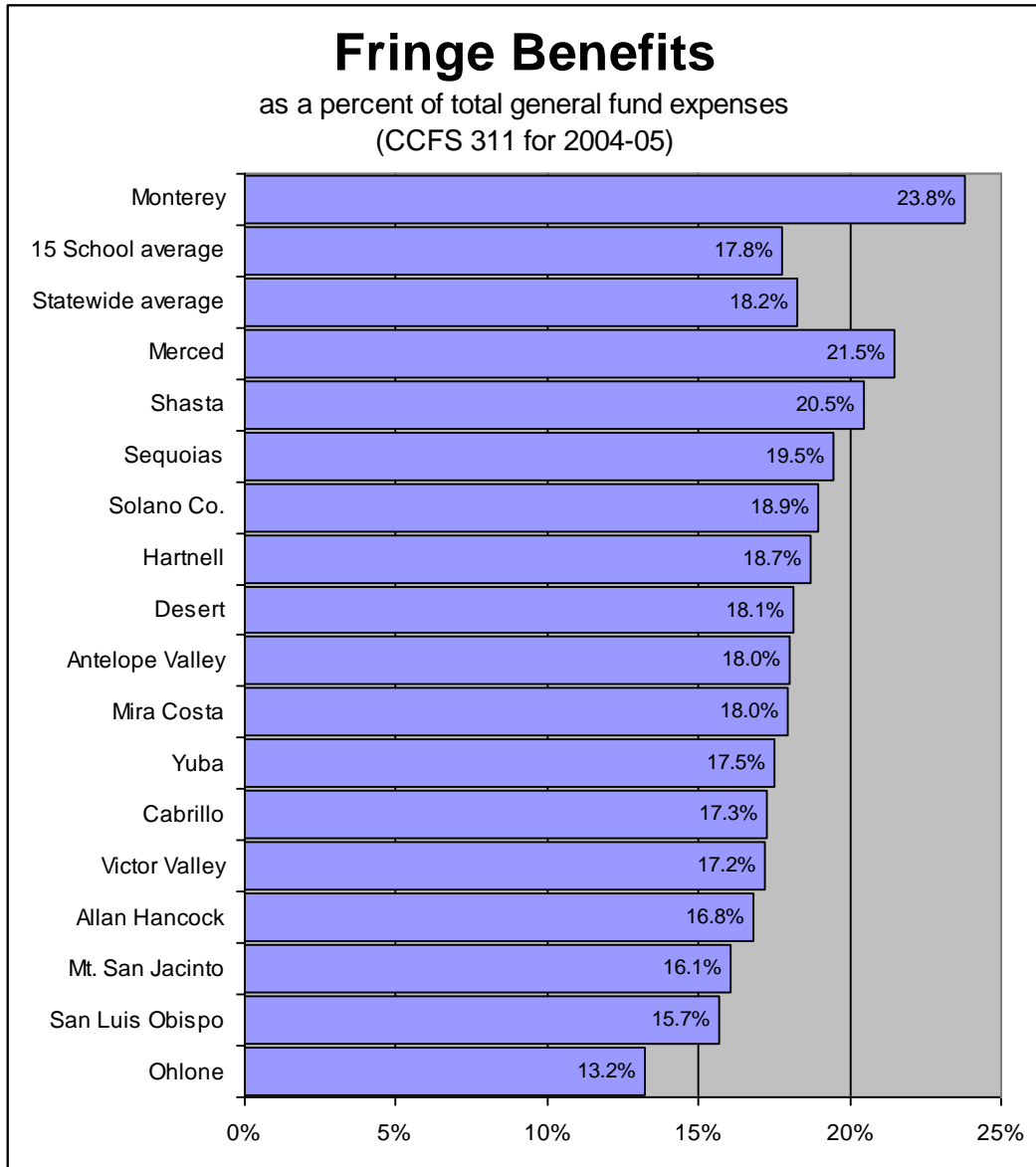
- The three top categories of expenses (academic salaries, employee benefits, and classified salaries) make up 82% (\$31.1 million) of total expenses (\$38 million).
- Adding Instructional Service Agreements, which are primarily for people, accounts for 86.1% (\$32.7 million) of total expenses.

A comparison of general fund expenses with other colleges indicates some significant differences.

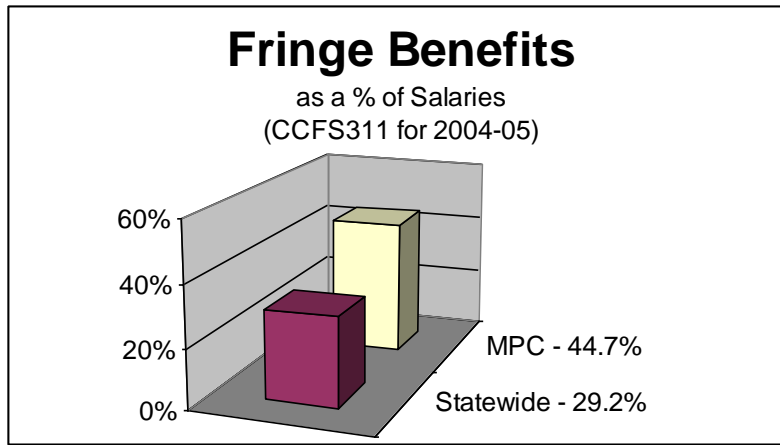


- The large number of FTES generated by ISA's accounts for the Salaries being lower and Supplies and Materials being higher at MPC.
- Transfers are also higher because of the larger support MPC provides to Child Development and contributions to Self Insurance.
- The cost of Benefits statewide is significantly less than MPC.

The District is spending considerably more for benefits than other colleges.

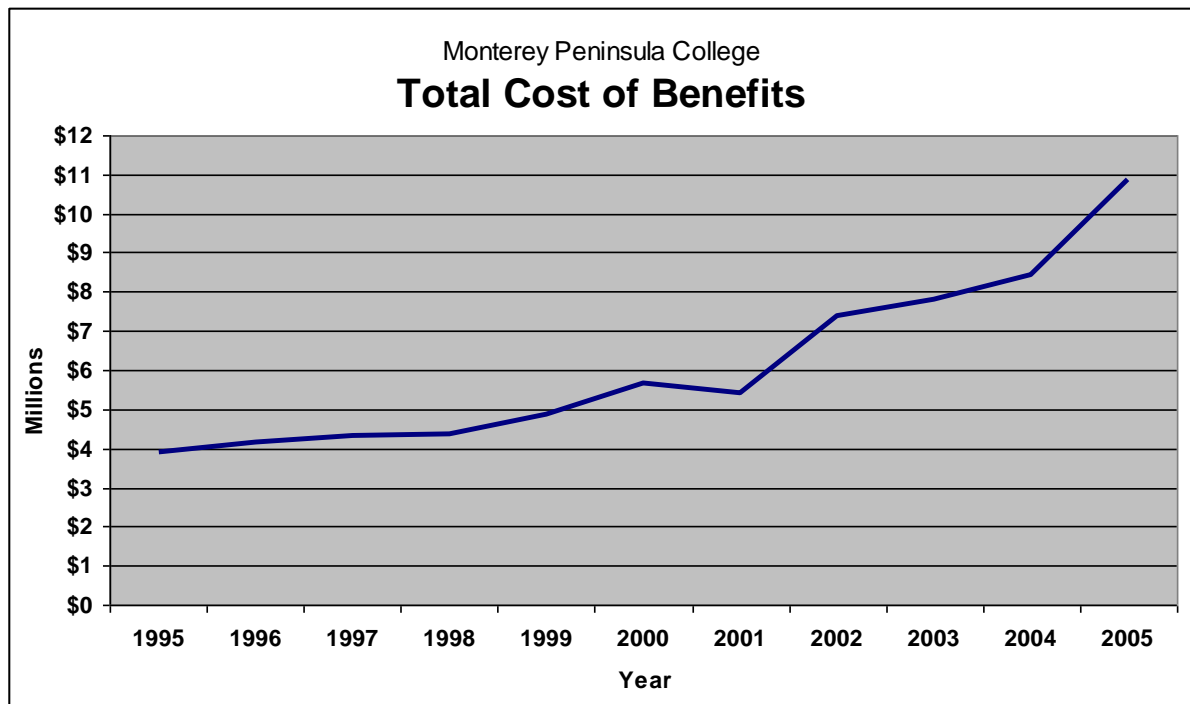


- Although the costs of benefits are significant for all institutions, MPC's expense totaled 23.8% (\$9.9 million) compared to the state average of 18.2% and an average of 17.8% for the 15 comparator schools closest in size to MPC.



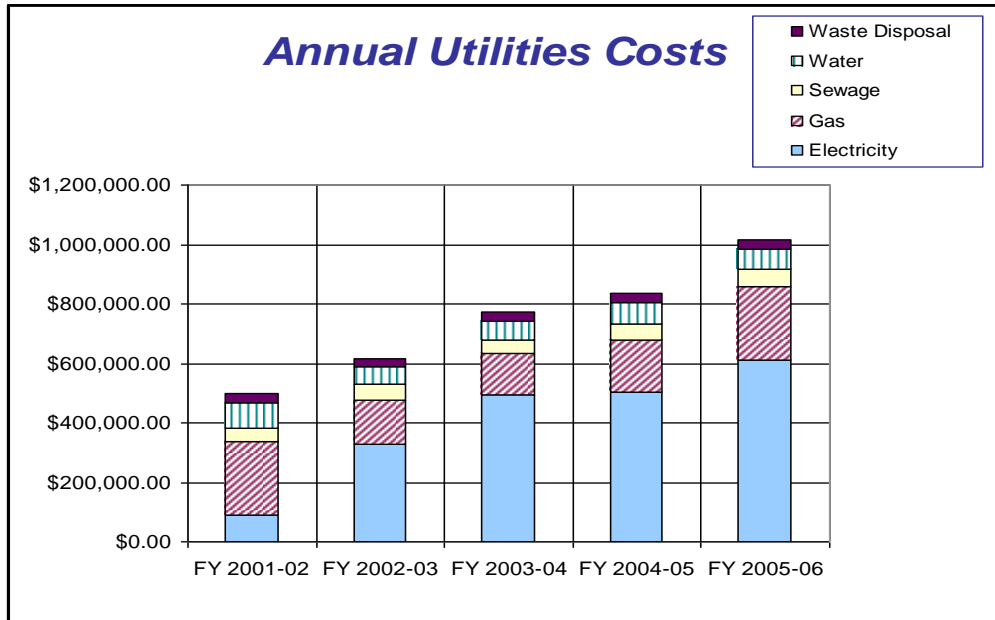
- Statewide, cost of benefits are 29.2% of total salary costs. For MPC, cost of benefits are 44.7% of total salary costs.

Increased costs for fringe benefits are projected to continue to outpace inflation.



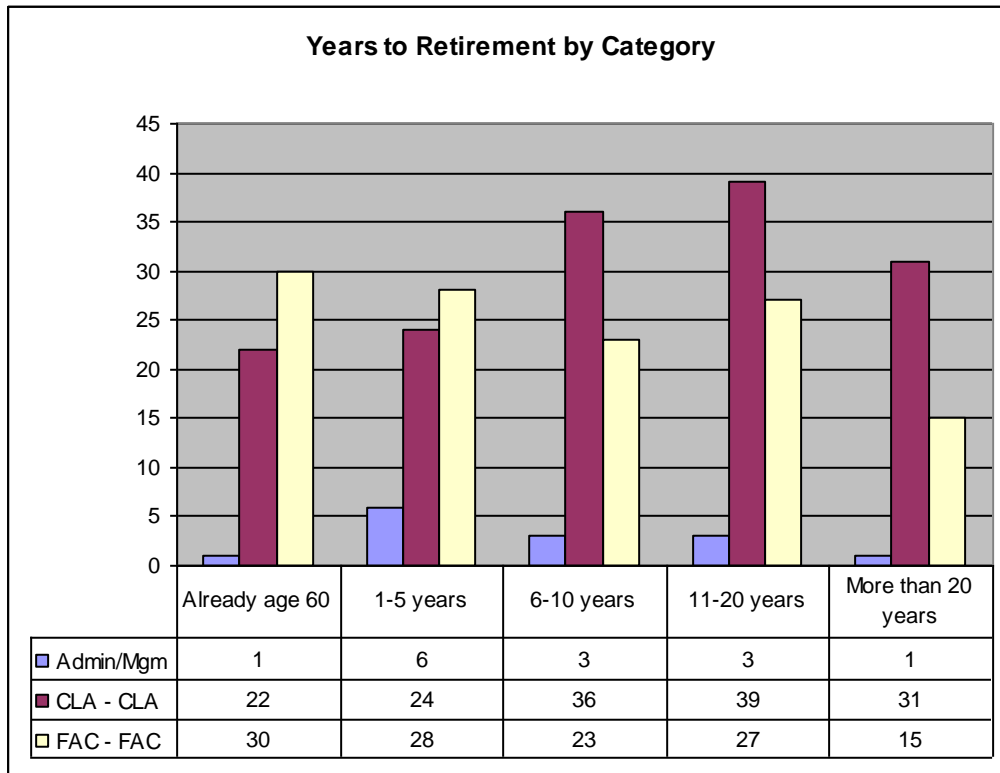
- The cost trend for medical expenses nationwide continues to outpace inflation with no end in sight.
- For the District, this expense is expected to escalate beyond industry trends because most employees have the benefit of medical coverage continuation after retirement at District expense. The larger number of participants on the District's medical plan will result in increased expenses and require increased funding by the District.
- Beginning with the 2008-09 fiscal year, the District is required to begin recording the unfunded retirement liability (GASB 45). Funding the liability will require approximately \$550,000 per year for 30 years.

The rising costs of utilities are projected to continue to outpace inflation.



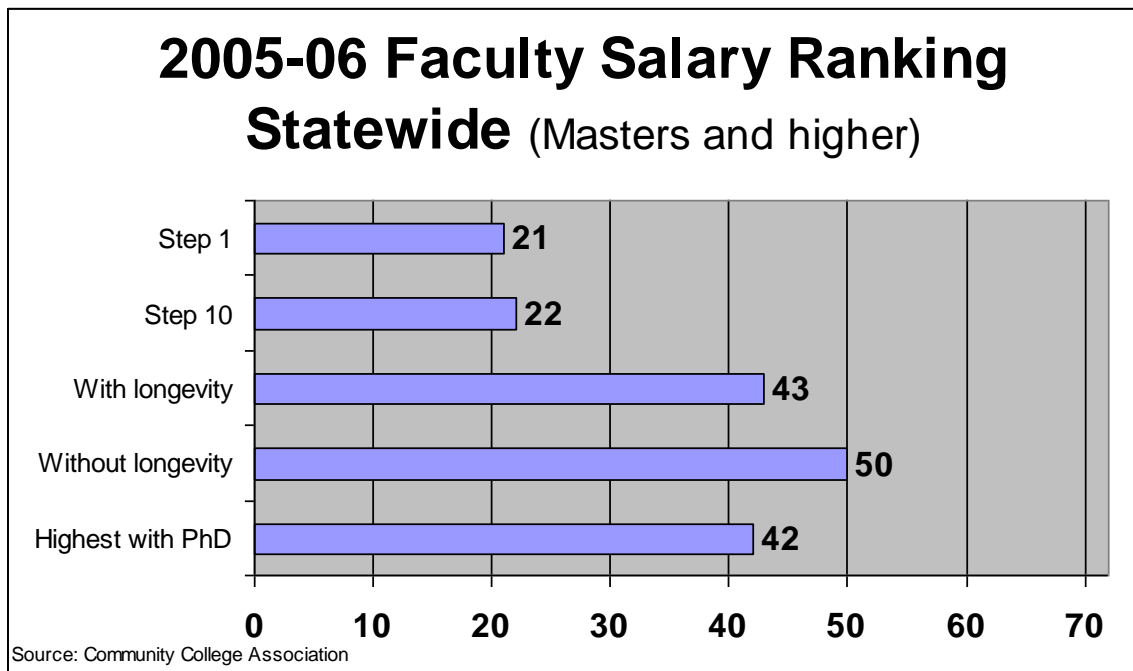
- It is projected that costs for gas and electricity will continue to be a problem in the state and require significant financial resources for both the state and the District.

The district has an aging faculty and staff and will likely see a significant turnover in employees over the next 10 years.



- 18% of current employees are over the age of 60.
- In 10 years 60% of current employees will be over the age of 60.
- Turnover will result in a salary cost reduction initially. Short term savings will be mitigated by retiree health benefits.

A comparison of statewide faculty salaries with other California Community colleges indicates the District's salaries compare favorably.



- Salaries at the entry level are at the upper end, ranking 21st out of 72.
- The salary rankings fall with longevity of faculty.

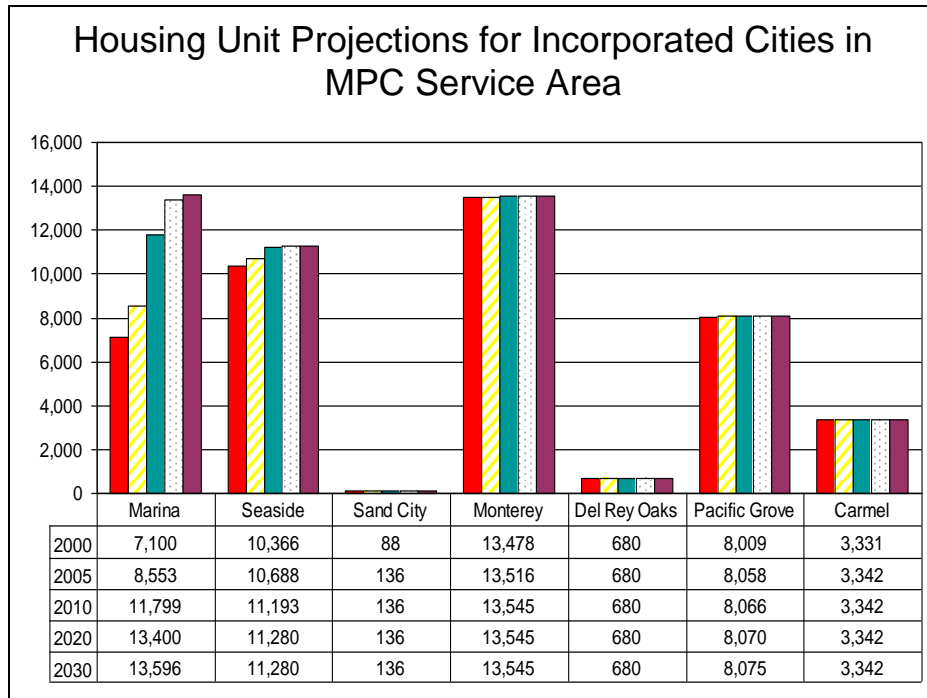
VI. Budget Impact of New Construction

New construction and renovations are planned using one-time funding sources (local bond, state capital outlay, etc.). The escalation of construction costs will make it very unlikely that the District will be able to fully implement its capital construction plans without additional one-time resources. In addition, the expansion of facilities on campus and addition of new facilities off campus will require additional on-going resources to maintain.

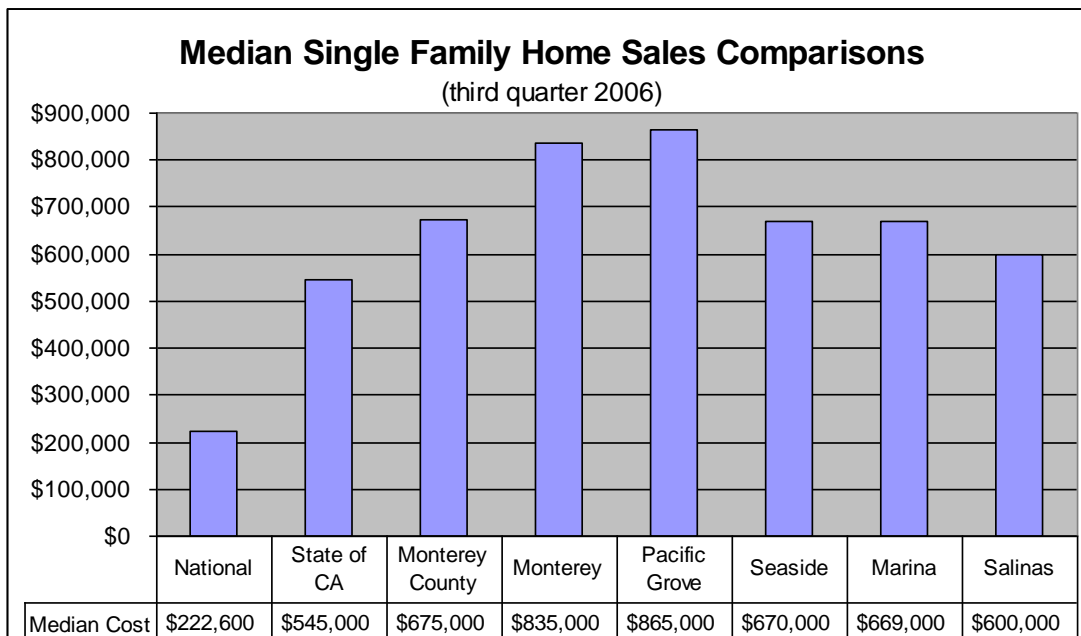
- The new on campus Child Development facility scheduled to be completed by the Fall, 2007 is larger than the current and will require more personnel and utilities to maintain.
- The new stadium on campus scheduled to be completed in the Spring, 2007 includes additional restrooms, bleachers, and a snack bar which will require more personnel and utilities to maintain.
- The off campus additions of portables at Seaside scheduled to be operational in January, 2007, and portables at Marina scheduled to be operational August, 2007, and eventually the addition of permanent facilities at these locations will require new instructional staffing, support staff, and operating budgets.
- The new Student Services building will result in net increase in gross square feet for the campus.

VII. Community Data and Projections

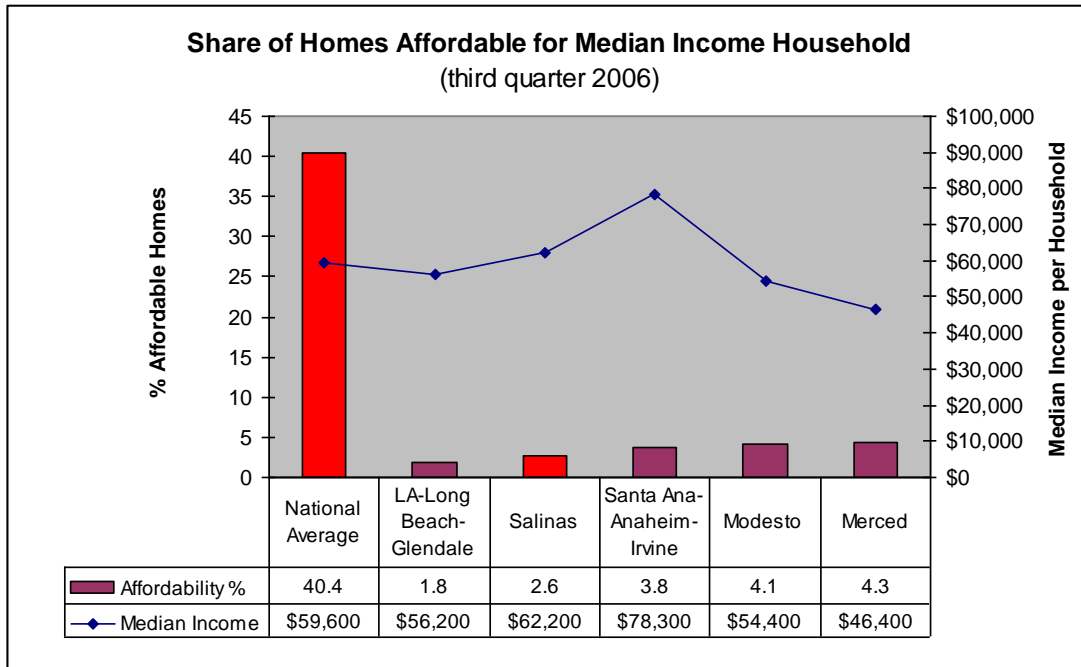
Significant housing growth is projected for Marina and Seaside.



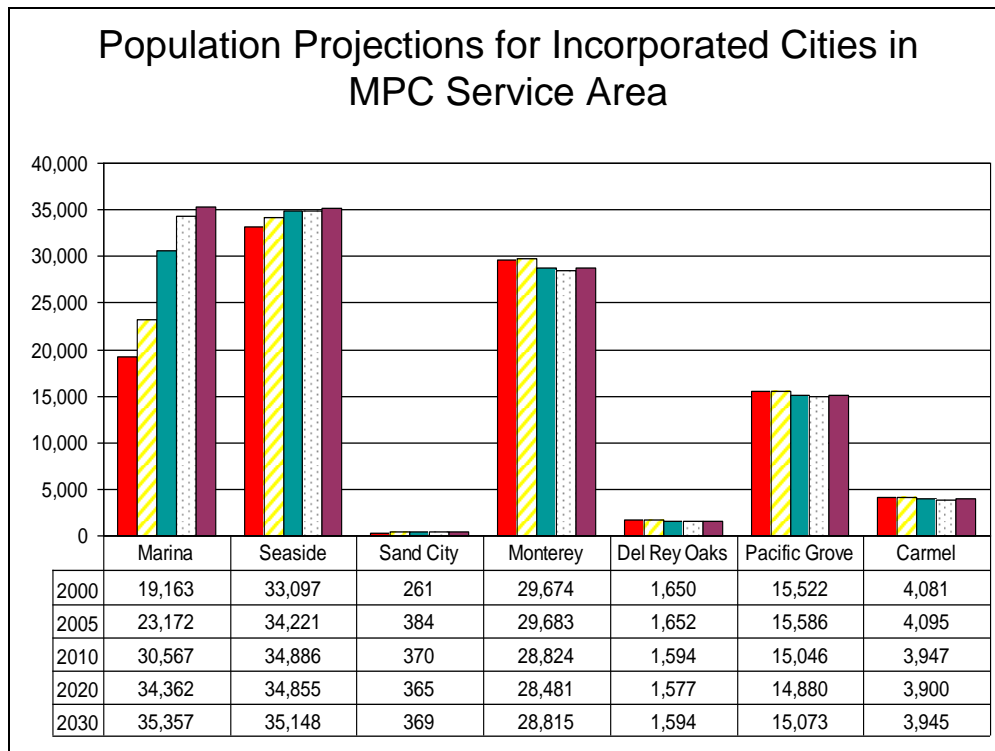
The cost of housing is considerably higher in the District's service area than both the state and nationally.



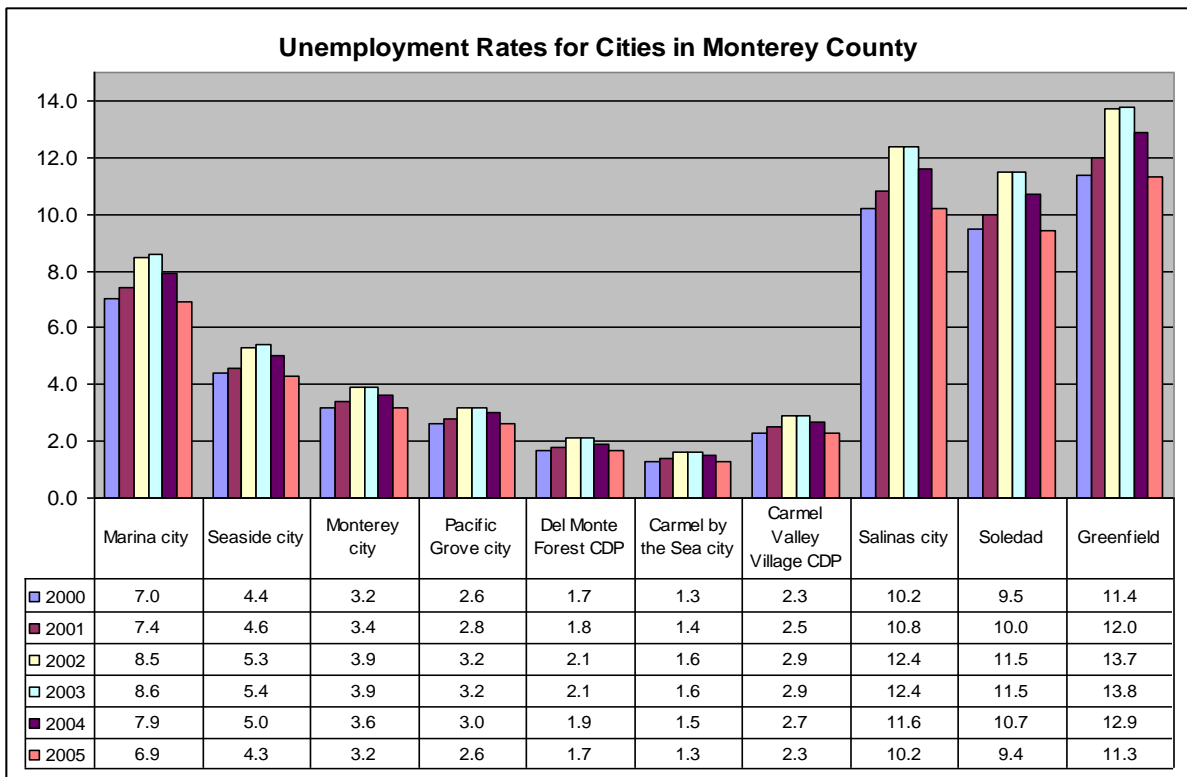
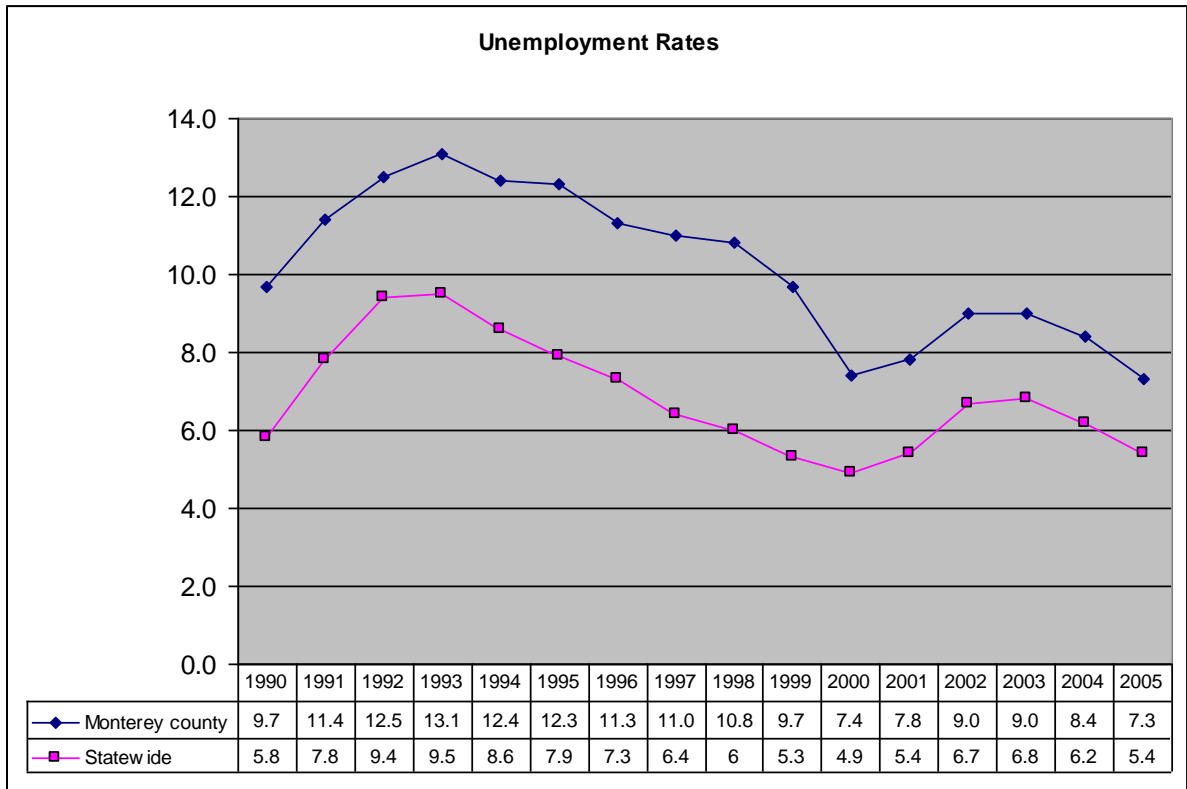
Cost of housing is currently prohibitively high for many workers.



Populations are projected to grow in Marina and Seaside. Decreases in populations are projected for other incorporated cities in MPC service area.

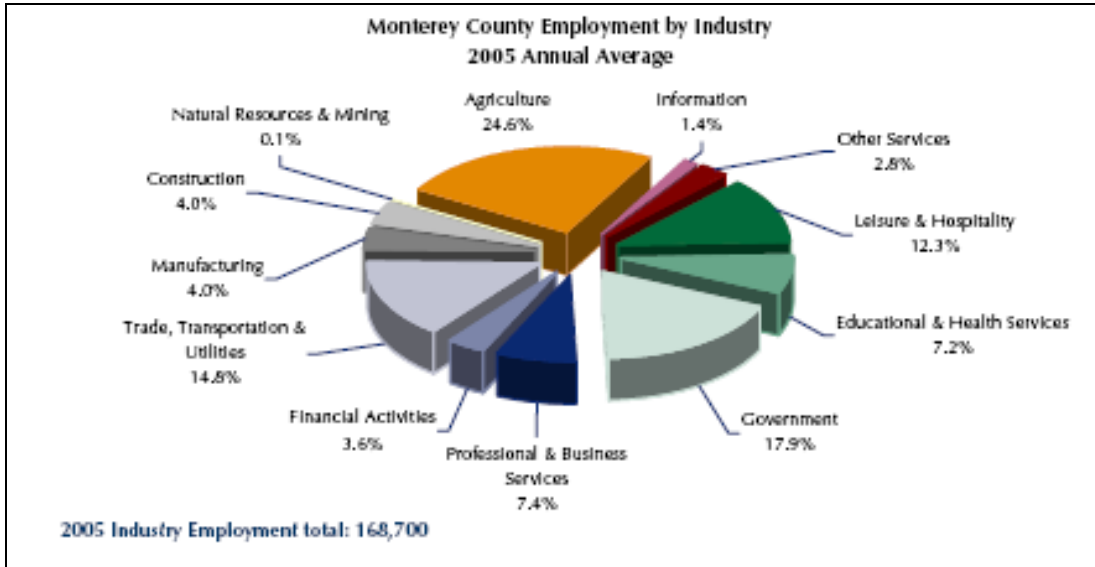


Unemployment rates in Monterey County are higher than the state and nation.

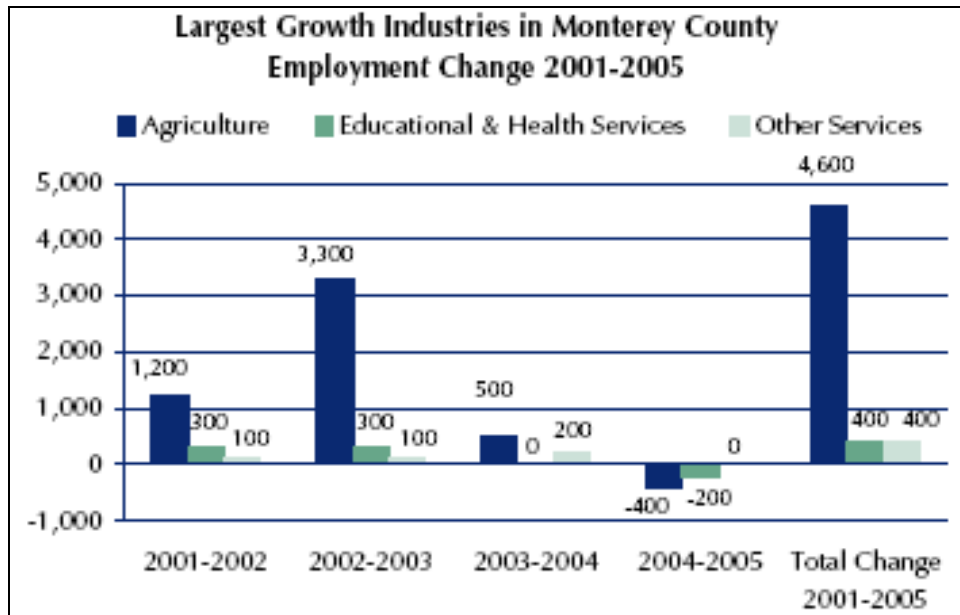


- Areas with seasonal economies, such as the county’s agriculture and tourism industries, tend to have higher unemployment than other regions.
- The county is comprised of two distinct regions: the Monterey Peninsula, and the Salinas River Valley.
- Cities in the Salinas Valley account for the higher than average rate for the county.

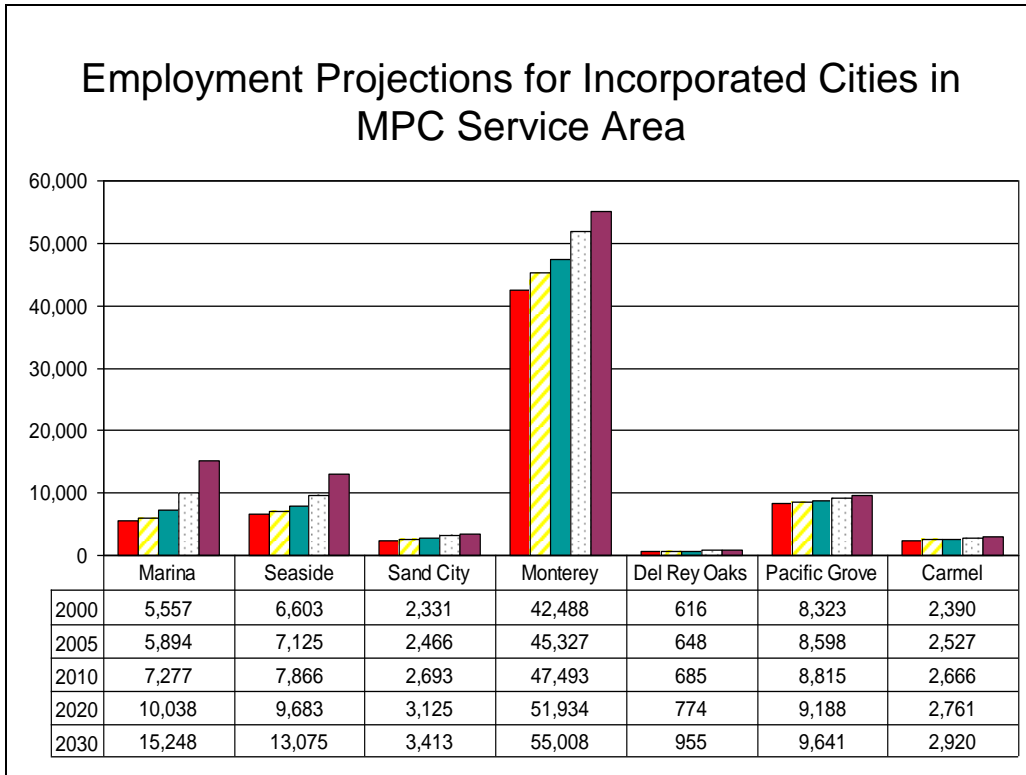
The largest industries in Monterey County are agriculture and government.



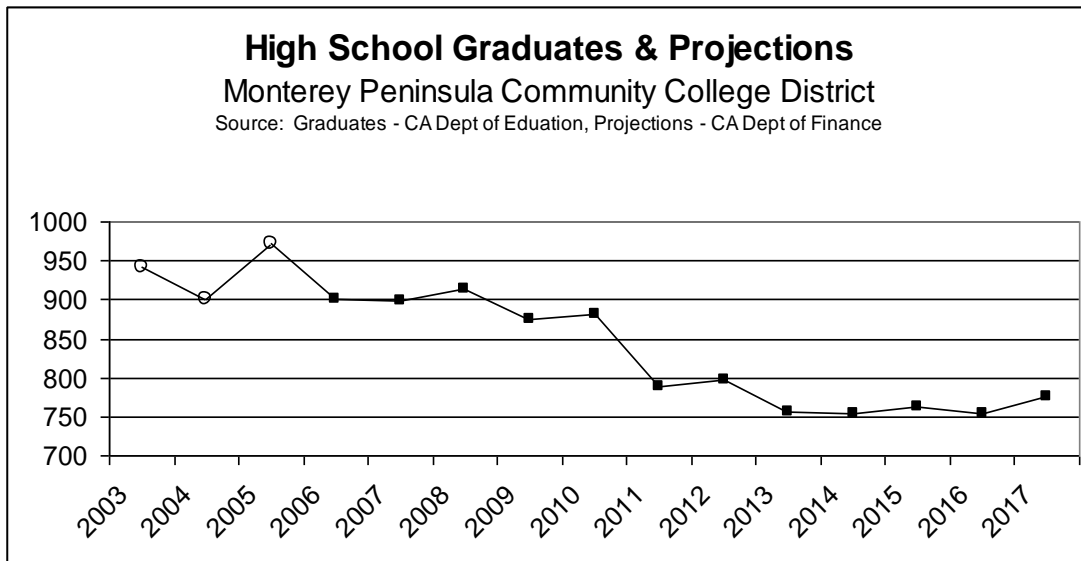
Agriculture has been the largest growth industry in the county over the past four years.



Projections show county employment to continue to grow in all cities.



K 12 enrollments in the District's service area are declining.



- Declining high school graduates in the District's service area may adversely affect enrollments at the District.

VIII. Summary of Major Fiscal issues

Although the district is not in any immediate danger of a fiscal crisis, the district's financial future does include uncertainties and risks. In the upcoming years the District will face a number of significant challenges affecting financial stability. Major issues include:

- A. **State funding will continue to have a major impact on funding for community colleges.** The District should become more active at the state level to improve funding for community colleges.
- B. **The District's future fiscal condition relies primarily on its enrollments.**
 1. **The trend of declining enrollments needs to be stopped and the District needs to move into a pattern of growth.** Increased revenues from COLA will not cover increases in operating expenses...additional revenue from enrollment growth is needed. Current projections show decreasing high school graduates in the District's service area. However, populations are projected to grow (primarily in the areas of the former Fort Ord). Programmatic focus should be reexamined to maximize overall participation rate in the District. A community needs assessment is currently under way and must be analyzed to determine the services (new and/or expanded programs) desired by the current and new populations. The District should also be able to accomplish growth through improved outreach and retention, and examination of new enrollment markets. Current untapped enrollments might also be available considering the areas high unemployment and the District's absence of programs in the county's major areas of employment.
 2. **The District's heavy reliance on ISA's should be significantly reduced and ISA's FTES replaced with regular FTES.** ISA's are subject to significant unpredictable changes, and should only be considered a temporary measure used to stabilize revenue. With 33% of the District's FTES being generated through ISA's, any significant reduction of ISA FTES would lead to cuts in on campus programs and services.
- C. **Increases in operating expenses need to be managed through improved efficiencies.** The District will need to work to ensure the best utilization of resources. The District must choose its priorities and balance quality of education with economic efficiencies. Employee compensation is the largest expense of the District and organizational efficiencies in all areas (teaching, services, and administration) should be reviewed and improved where ever possible. The District has implemented energy reduction measures in the past and, is currently in the process of completing an energy audit of the campus to determine additions upgrades to reduce
- D. **Special attention needs to be placed on attracting new employees.** Significant turnover at the District is anticipated over the next 10 years, considering 60% of the current employees will reach retirement age. The large numbers of retiring baby boomers will likely cause a shortage in the labor market nationwide.
 1. **The District will need to have competitive salaries to attract and retain quality faculty and staff.** Salary will probably be the primary part of a compensation package that will attract new employees. A greater percent of the District's resources should be allocated to salaries rather than benefits for the District to remain an attractive employer.

2. **The District should consider possible alternatives to assist new employees with their housing needs.** Affordability of housing will continue be a negative in attracting and retaining employees. The expensive cost of housing in the area will probably result in difficulty recruiting new employees, especially for employees that are typically drawn from outside the area (faculty and management).
- E. **Employee compensation needs to be better balanced between salaries and benefits.** The District is currently spending considerably more for employee benefits than other similar institutions. New GASB rules will require significantly more resources be put into funding retiree benefits. In addition, there will be an increasing number of retirees on the District's medical plan as the numbers of employees retiring increases, which will further increase the cost of medical expenses paid by the District. The District needs to continue to work to contain expenses for benefits in order to put more money into salaries. Total compensation needs to be a consideration in future labor negotiations and the District should work to shift expenses from benefits to salaries.
- F. **New resources will be required to support new and expanded facilities.** A careful analysis of the needs of facilities and support for new and expanded programs and services should be completed and future budgets projected. The District will need to carefully balance increases in growth to cost to insure fiscal stability.