

Agenda Item (IV-D-1)

Meeting 9/1/2015 - Committee
Agenda Item Committee - Resources (IV-D-1)
Subject Increasing the Fund Balance Reserve Target
College/District District
Information Only

Background Narrative:

In September 2004, the Board of Trustees approved Board Policy 6200 – Budget Preparation which included establishing the concept of a minimum fund balance reserve target in the annual budget development process. Establishing a minimum reserve level was a prudent financial step that has served the District well.

Recent events occurring over the past several years have brought to the forefront whether the 5% minimum reserve level is sufficient to protect the District’s fiscal stability should negative financial events occur.

During the “Great Recession”, the District was forced to make significant budget reductions to protect its fiscal viability, and exposed financial vulnerabilities. In addition, the District recently concluded the credit rating process in connection with the latest Measure C general obligation bond issuance. While the District fared well, a larger reserve balance would have had a positive impact.

The attached information is being presented to the Board of Trustees for discussion purposes to consider increasing the fund balance reserve target and/or establishing a target range.

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Attachments:

[09012015_Presentation – Increasing the Fund Balance Reserve Target](#)



DISCUSSION

Increasing the
Fund Balance
Reserve Target

September 1, 2015



Current Board Policy

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BP 6200 – Budget Preparation

“The fund balance target concept shall apply to the Unrestricted General Fund budget and shall be equal to a minimum of 5.0 percent of the sum of the projected beginning fund balance for a particular fiscal year and the estimated revenues for that year. The fund balance target amount shall be the first item funded in the budget for any fiscal year.”

Basis of Measurement

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- ❑ Budget
- ❑ Actual Revenues/Actual Expenditures
- ❑ General Operating Fund
- ❑ Unrestricted Funds
- ❑ Unrestricted and Restricted
- ❑ Ongoing Funds vs. One-Time Funds



Riverside Community College District

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There are numerous ways to calculate the reserve requirement.

- Based on Budget for All Unrestricted Funds
 - Conservative and prospective which assumes that there will be built in budget savings.



Chancellor's Office

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- ❑ Institutional Effectiveness Goals – Fiscal Viability
 - “Ending unrestricted fund balance as a percentage of total expenditures.”



Government Finance Officer's Association (GFOA)

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□ Best Practices

1. “At a minimum, maintain an unrestricted general fund balance of no less than two (2) months of regular general fund operating revenues or regular general fund operating expenditures.”

OR

2. “At a minimum, maintain an unrestricted general fund balance of no less than ten (10) percent of regular general fund operating revenues or regular general fund operating expenditures and transfers out.”

RCCD Reserve History –

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Fiscal Year	BUDGET		ACTUAL	
	Adopted Contingency Balance	% of Available Funds	Ending Fund Balance	% of Available Funds
2014-15*	7,801,811	4.28%	14,667,941	9.15%
2013-14	6,358,532	4.23%	12,743,536	7.65%
2012-13	4,560,030	3.23%	11,407,409	7.95%
2011-12	5,840,447	3.94%	6,805,919	4.73%
2010-11	8,729,056	5.60%	13,217,249	8.48%
2009-10	8,391,878	5.50%	11,253,316	7.22%
2008-09	12,566,801	7.68%	13,903,627	8.74%
2007-08	9,423,484	6.14%	19,259,076	12.37%

Comparisons – Riverside Community College District

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Below is an illustration of the calculated reserve using 8.25 % (8 year average of actual reserves) in comparison to the current Board Policy of 5.00%.

	Total Available Funds Budget*	8 Yr. Average % of Actual Total Available Funds	Calculated Reserve at 8.25%	5.00% Reserve	Additional Reserve Required
FY 2014-15	\$159,012,783	8.25%	\$13,118,555	\$7,950,639	\$5,167,915
FY 2013-14	\$150,365,498	8.25%	\$12,405,154	\$7,518,275	\$4,886,879
FY 2012-13	\$141,182,480	8.25%	\$11,647,555	\$7,059,124	\$4,588,431

*Resource 1000 Only - Excludes Non-General Operating Fund Resources

Comparisons – Chancellor’s Office

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□ FY 2012-13 (72 Districts Reporting)¹

- Percentages range from 5.18% to 36.95%
- Statewide - 17.27%
- Sample Multi-College Districts
 - San Diego CCD 9.73%
 - Los Rios CCD 12.12%
 - Los Angeles CCD 13.37%
 - San Mateo CCD 17.03%
 - North Orange CCD 26.96%
 - Rancho Santiago CCD 26.98%
 - San Bernardino CCD 36.95%
- Riverside Community College District – 8.36% (9th lowest) \$10.93 million. Increasing to 10% would be \$13.07 million, a difference of \$2.14 million.

¹ Compiled by Jose Torres, Interim Vice Chancellor of Fiscal Services, San Bernardino CCD

Comparisons – Chancellor’s Office

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□ **FY 2013-14 (60 Districts Reporting)**¹

- Percentages range from 6.27% to 39.33%
- Statewide – 19.81%
- Sample Multi-College Districts
 - San Diego CCD 6.52%
 - Los Angeles CCD 10.98%
 - Los Rios CCD 11.56%
 - San Mateo CCD 16.86%
 - Rancho Santiago CCD 18.87%
 - San Bernardino CCD 22.80%
 - North Orange CCD 27.25%
- Riverside Community College District – 8.56% (4th lowest) \$11.73 million. Increasing to 10% would be \$13.70 million, a difference of \$1.97 million.

¹ Compiled by Jose Torres, Interim Vice Chancellor of Fiscal Services, San Bernardino CCD

Comparisons – Chancellor’s Office

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- 49 out of 72 Districts have a Board Policy for an unrestricted fund balance percentage¹ as follows:

– 5.00% - 24	– 8.00% - 3
– 5.50% - 1	– 10.00% - 4
– 6.00% - 3	– 15.00% - 1
– 7.00% - 1	– 20.00% - 1
– 7.50% - 1	– Other - 10

- 7 Districts have a fund balance range

¹ Compiled by Jose Torres, Interim Vice Chancellor of Fiscal Services, San Bernardino CCD

Comparisons – Government Finance Officer’s Association

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Two (2) Month Average of Revenues -

Below is a calculation of fund balance reserves under the criteria promulgated by GFOA in comparison to the RCCD’s fund balance reserve:

	<u>Average Revenues</u>		<u>Fund Balance Reserve</u>		<u>Additional Reserve Required</u>
FY 2014-15	\$25,218,424	vs.	\$14,399,804	=	\$10,818,620
FY 2013-14	\$23,518,564	vs.	\$11,734,057	=	\$11,784,507
FY 2012-13	\$25,218,424	vs.	\$10,926,706	=	\$14,291,718

Comparisons – Government Finance Officer’s Association

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Two (2) Month Average of Expenditures –

Below is a calculation of fund balance expenditures under the criteria promulgated by GFOA in comparison to the RCCD’s fund balance reserve:

	<u>Average Expenditures</u>		<u>Fund Balance Reserve</u>		<u>Additional Reserve Required</u>
FY 2014-15	\$24,774,133	vs.	\$14,399,804	=	\$10,374,329
FY 2013-14	\$23,384,005	vs.	\$11,734,057	=	\$11,649,948
FY 2012-13	\$22,105,183	vs.	\$10,926,706	=	\$11,178,477

Comparisons – Government Finance Officer’s Association

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Ten (10) Percent of Revenues -

	<u>Revenues</u>	<u>Percent</u>	<u>Calculated Fund Balance Reserve</u>	<u>RCCD Actual Fund Balance Reserve</u>	<u>Additional Reserve Required</u>
FY 2014-15	\$151,310,544	10%	\$15,131,054	\$14,399,804	\$731,250
FY 2013-14	\$141,111,382	10%	\$14,111,138	\$11,734,057	\$2,377,081
FY 2012-13	\$136,906,723	10%	\$13,690,672	\$10,926,706	\$2,763,966

Comparisons – Government Finance Officer’s Association

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Ten (10) Percent of Expenditures -

	<u>Expenditures</u>	<u>Percent</u>	<u>Calculated Fund Balance Reserve</u>	<u>RCCD Actual Fund Balance Reserve</u>	<u>Additional Reserve Required</u>
FY 2014-15	\$148,644,796	10%	\$14,864,480	\$14,399,804	\$464,676
FY 2013-14	\$140,304,031	10%	\$14,030,403	\$11,734,057	\$2,296,346
FY 2012-13	\$132,631,097	10%	\$13,263,110	\$10,926,706	\$2,336,404

Credit Rating Agencies

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Moody's Investors Service

- Median for Aa2 rating for California CCD's is 16.30% of combined restricted and unrestricted revenues.

– Riverside Community College District

	<u>Restricted and Unrestricted Revenues</u>	<u>Calculated Fund Balance Reserve at 16.30%</u>	<u>Actual Fund Balance Reserve</u>	<u>Percentage</u>	<u>Additional Reserve Required</u>
FY 2014-15	\$187,612,345	\$30,580,812	\$26,036,620	13.88%	\$4,544,192
FY 2013-14	\$173,624,650	\$28,300,818	\$22,322,368	12.86%	\$5,978,450
FY 2012-13	\$166,229,407	\$27,095,393	\$20,415,832	12.28%	\$6,679,561

*Standard & Poor's Ratings Services does not disclose their measurement criteria.

Summary

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- ❑ Most scenarios will require a significant increase to the ending fund balance.
- ❑ How do we get there?
 - Function of more revenues and/or less expenditures
 - Limited ability to increase revenues
 - Dependent on the State
 - Most revenue is passed-through in the form of compensation
 - Establish a target range rather than a hard target
 - Ongoing budget shortfall of approximately \$4 million
 - Will require a reduction of expenditure budget
 - Implementation over a number of years?