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COMMUNITY COLLEGE UPDATE

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It's Time to Batten Down the Hatches

 [BY JOHN GRAY](#)

 [BY SHEILA G. VICKERS](#)

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How many of us have been on a wooden ship in stormy seas? We may feel like that is what we are going through with the current pandemic, when in fact we didn't get much of a chance to batten down the hatches before it hit us. Here is where the term "batten down the hatches" comes from:

"To batten down the hatches is a nautical term from the early 19th century. When a ship was about to enter rough seas, the captain would order the crew to batten down the hatches. The crew would close all the hatches (doors) on the ship's decks and use lengths of batten (rods) to secure the hatches in the closed position."

We do have another storm—a recession—that may hit us even before this pandemic has subsided. Before the pandemic hit, many community colleges were declining in enrollment, and the slowdown of just the cost-of-living adjustment (COLA) for revenue increases had begun. Even community colleges that haven't been declining in enrollment found themselves to be deficit spending due to myriad cost pressures, including:

- Rising pension contributions
- Increasing health benefit contributions
- Increased salaries due to step and column movement, and
- Maintaining competitive compensation

While community college leaders have been faced with the impact of the pandemic on college operations, on students, on their local communities, and on their own personal lives and families—the economic impact will also be felt in all of these areas. Our state policy makers have expressed concerns about the financial impact, as a decline in state revenues is anticipated and K-14 education is likely to see fewer resources allocated to it from the state in the near future. Also, while there is a hold harmless on full-time equivalent student (FTES) counts for apportionment revenues this year, most if not all are spending more than what they had budgeted for in order to provide distance learning and other services to the students that need them during this time.

Considering all of this, we think it's time to batten down the hatches—if your agency hasn't already. That includes changing the way the local community college budget is developed and planning ahead to prepare for lower funding. It also includes making sure that local stakeholders are brought along in the process. What follows are the broad strokes of some potential actions to consider.

Current-Year Budget

Most local agencies are well into developing their budgets for next year, and it is important to have the current-year budget as a solid springboard. Now is the time to conduct a thorough update of your current-year budget to reflect the latest information and activities for your agency.

Revenue Budget

For revenues, knowing about the hold harmless on FTES means a solid estimate of apportionment revenues can be prepared. However, that is not going to be the case for the last two quarters of state Lottery revenues, nor will it apply to many local sources of revenues which will decline as a result of the pandemic. As examples, fees for the use of facilities are likely nonexistent now, and local donations or foundation activities have been significantly throttled back as families and community members deal with their own personal and professional challenges.

Expenditure Budget

For expenditures, local agencies are continuing to pay their regular employees. However, there may be some adjustments to make in the budget for hourly workers, extra pay, substitutes, overtime, or other types of variable wages. There may also be premium pay for employees continuing to work during this time. It's time to make further adjustments to salaries and benefits for vacancy savings, negotiated compensation settlements, or other changes since your local budget was last revised.

The technology budget will need to be scrutinized to determine what the current-year impact will be of buying and issuing technology to students for distance learning and to staff for working remotely, including the cost of additional internet access or wireless network devices. There may be adjustments necessary to other expenditure categories, such as professional or consulting services, supplies for faculty and staff, contracted services for repairs, professional development providers, and travel and conferences.

Once the current-year budget is updated, the estimated ending balance forms the basis for next year's financial plan.

Next Year and Beyond

Out-Year Revenues

Estimating revenues will be challenging for next year and beyond. All indications are that the local agency revenue outlook will be dampened from what was anticipated in Governor Gavin Newsom's January State Budget proposal. The current COLA of 2.29% estimated in January for the 2020–21 fiscal year is likely to be lowered at the May Revision next month. In addition, the subsequent-year COLAs are vulnerable to being lowered. Once the May Revision is released, we will have the anchors for your out-year projections in our Financial Projection Dartboard, in addition to likely more conservative contingency assumptions.

State Lottery and local revenue sources will also likely continue to suffer from the economic slowdown as a result of the pandemic. The current-year experience, short as it has been thus far, could provide the best estimate for these revenue sources going forward.

Out-Year Expenditures

On the expenditure side, the staffing budget should already include the pension contribution increases, staffing reductions or increases, and other factors that were anticipated before the pandemic. Faced with lower anticipated revenues in the future, many local agencies may be faced with making further reductions. Other than finalizing any March 15 certificated preliminary layoff notices in May, full-time faculty staffing levels for next year are mostly set. A local agency that needs to reduce staffing costs can evaluate classified staffing levels or part-time faculty positions at any time of the year, which means determining whether certain services need to continue or will no longer be needed.

For all staff, it's not too early to consider offering an early retirement incentive sometime next year. If your local agency has a significant number of staff members at the tops of the salary schedules and a reduction in staff is needed, an early retirement incentive could be a way to encourage long-time staff to retire and provide room for new hires only for those retiring staff positions that need to be replaced. A cost/benefit analysis can indicate whether an early retirement incentive can have a positive impact on your work force and your budget.

Conserving Cash

In the words of our friends at the Fiscal Crisis and Management Assistance Team (FCMAT), "Cash is King!" By the end of the last recession, the words were changed to "Cash shows no Mercy!" Remember, the prudent reserve level of 5% of total General Fund expenditures equates to only 8 to 10 days of payroll. General Fund reserves are an indicator of the cash balance but are not the same as cash—cash is but a portion of reserves. It is possible for a community college to have a positive ending balance but run out of cash, especially if our state policy makers once again decide to resort to cash deferrals as a solution for the state's financial woes.

It is important to invest the time necessary to reconcile all general ledger accounts, including cash, every month and revise cash flow projections accordingly. We at School Services of California Inc. (SSC) always recommend that cash projections be prepared at least 18–24 months out so that cash deficits can be managed through local cash borrowing, by making budget reductions, through a

hiring and spending freeze, by accelerating cash collections, and/or by delaying cash outlays so that the state does not have to step in. In other words, managing cash is critical in maintaining fiscal solvency and local governance.

Conclusion

Communicating information about your local agency's financial situation is vital in bringing along your local agency's stakeholders. Your governing board, employee groups, other stakeholders, and the broader community need to know and understand the impact of the pandemic on the world, national and state economies, and the anticipated impact to your budget, your college(s), and your community.

These communications have to be through electronic means right now. But once the shelter-at-home order is lifted, use all avenues available to your agency for communicating with the broader community. Budget review committees, strategic planning committees, governing board meetings, and other venues are opportunities for communication and engagement. More communication is needed, not less. More budget analysis and budget updating are needed, not less.

There are always many moving parts to the local agency budget that require revisions to be made all year long, both upwards and downwards. Managing these complexities is made more challenging in the current circumstance and as we face the coming storm. We at SSC are honored to serve you and to continue providing information, support, and advice along the way. Stay tuned . . .

¹Source: https://www.grammar-monster.com/sayings_proverbs/batten_down_the_hatches.htm