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# California State Senate

SENATOR  
**BOB ARCHULETA**

THIRTIETH SENATE DISTRICT



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JOINT LEGISLATIVE COMMITTEE  
ON EMERGENCY MANAGEMENT

April 15, 2025

The Honorable John Harabedian  
Chair, Joint Committee on Legislative Audit  
1021 O Street, Suite 4350  
Sacramento, CA 95814

**REVISED 5/07/2025**

## **RE: Audit Request – Community College Reserves**

Dear Assemblymember Harabedian,

I am writing to ask for a state audit of the unrestricted general fund reserves held by California Community College (CCC) districts. An audit will provide transparency and accountability regarding the financial practices of community college districts. The audit will help identify the reasons behind the accumulation of excessive reserves, assess impacts on student outcomes, and provide recommendations for ensuring that public funds are being used effectively to support the primary mission of the CCC system.

The state funds community colleges to educate students, not to accumulate excessive reserves. An audit will help ensure that community college districts are using their funds in accordance with legislative intent and acting as responsible stewards of public resources.

By conducting a state audit of California Community College reserves, we can identify areas for improvement, establish best practices for financial management, and ensure that public funds are being used effectively to support student success and promote equitable access to higher education. We urge the state to prioritize this audit to maintain the integrity and effectiveness of the CCC system.

The California Community Colleges (CCC) system plays a vital role in providing accessible and affordable higher education to millions of students across the state. Over the past decade, a significant number of community college districts have accumulated excessively high reserve balances. As of the end of the 2024 fiscal year, the average reserve balance across all 73 districts was 37.05%, with some districts holding reserves exceeding 70% of their total general fund operating expenditures, raising concerns about the appropriate use of public funds.

The California Community Colleges Chancellor's Office has recommended that districts maintain sufficient unrestricted reserves, with a suggested minimum of two months of total general fund operating expenditures (approximately 16.67%). However, many districts hold reserves far exceeding this recommendation, potentially diverting resources from supporting student success and improving teaching and learning conditions.

California Community Colleges serve and uplift California's most vulnerable communities. When California's community colleges hold excessive financial reserves without reinvesting in students, programs, or infrastructure, it causes real and lasting harm to students, especially considering these institutions' critical role in advancing equity, workforce development, and social mobility.

When available funds aren't used to expand course offerings or student support programs, students may face limited access to classes or experience delays in completing their degrees or certificates. Despite having the resources, some colleges continue to scale back vital services like counseling, mental health support, tutoring, and career development - services essential to student success and retention.

The state auditor should conduct audits of five California Community College districts, selected to represent a diverse cross-section of the state's community colleges, as well as Calbright College. The selection should include a mix of rural and urban colleges of varying sizes, geographically distributed throughout California. This approach will ensure that the audit findings and recommendations are representative of the diverse needs and challenges faced by community college districts across the state, providing a comprehensive understanding of the reserve balance issue and its impact on student success.

### **Audit Scope and Objectives**

What questions should the audit answer or address?

- a. Reserve account balance of 2024 - 25 academic year as well as the previous 5 fiscal years
- b. The anticipated year-end account balance of the current fiscal year, as approved in the district budget and the percent those account balances represent relative to the district's operating budget
- c. The increase or decrease year-over-year in reserve account balances relative to the district's operating budget and the balance of those accounts over a corresponding time period
- d. The combined total of all general fund, programmatic fund, or capital campaign reserve accounts held by the district

- e. The increase or decrease in reserves for districts since the implementation of the Student Centered Funding Formula
- f. How do reserve levels compare to the Chancellor's Office guidelines? Have there been recent trends in reserve growth across districts (e.g., increasing, stagnant, or declining over the past 5 years)?
- g. What justifications, if any, have districts provided for maintaining high reserve balances and are the justifications reviewed or validated in any way?
- h. Are districts with high reserves also reporting budget constraints, staffing shortages, or cuts? If so, how is that reconciled?
- i. Are there any instances where districts opted to increase reserves at the expense of investments in instruction, infrastructure, or student support?
- j. What is the potential impact of high reserve holdings on student equity, particularly for low-income or underserved populations? Are there any correlations between high reserves and poor student outcomes (e.g., lower completion rates, reduced class availability)?
- k. What is the potential impact of high reserve holdings on a school's credit rating? How would high reserve holdings impact a school if there is a reduction in federal funding for California Community Colleges?
- l. What oversight mechanisms are in place to ensure that reserves are managed responsibly and aligned with student and system needs?
- m. Does the State Auditor have any recommendations to ensure reserves are balanced and benefit students directly?

Thank you for your consideration of this request. For questions, please reach out to Ben Edelstein in my Office at 916-651-4030 or [Ben.Edelstein@sen.ca.gov](mailto:Ben.Edelstein@sen.ca.gov).

Sincerely,



**Senator Bob Archuleta**  
**California State Senate, District 30**