RESPONSE TO RECOMMENDATION EIGHT

Recommendation 8: In order to meet the standard, the team recommends the College develop a financial strategy that will result in balanced budgets that have ongoing revenues to meet or exceed its ongoing expenditures without the use of reserves; maintain the minimum prudent reserve level; and address funding for its long term financial commitments and its retiree health benefits costs. (III.D.1.a, III.D.3.a, and III.D.4, IV.B.1.c., IV.B.2.d.)

Introduction

The College recognizes that one of its top priorities is developing a financial model that ensures financial stability for both the short and long term. The financial model needs to serve the dual purposes of financial stability and ensuring a resource allocation plan effectively meets the programmatic needs of the College.

We take pride in the fact that during the past years of economic hardship, the College has met the board's required six percent reserve level on an annual basis, and minimized negative impacts on class offerings. However, we realize that some of the methods used to successfully operate during recent years were of a temporary nature and will need to be reviewed on an annual basis.

The College's self-evaluation study on Standard IIID Financial Resources addresses in more detail the financial structure of the College in recent years [Evidence: Self-Study]. However, we also realize that we are in a changing environment and to be successful in the future we must move towards restructuring our financial model so that the temporary one-time measures used in the past will not be repeated in the future.

The first step in addressing a revised financial model was to determine where changes were needed. To assist in this evaluation, the College, working in conjunction with the Chancellor's Office, contracted with the Fiscal Crisis and Management Assistance Team (FCMAT) to evaluate the financial effectiveness of the College. In doing this, the College was very pro-active because typically this approach was only performed after an institution was in a financial condition that might warrant sanction. The final report was provided to the College in December 2012 [Evidence: Final FCMAT Report].

Implementation of the recommendations from FCMAT has necessitated revisions to the current fiscal planning of the college. Through review of these plans by the Strategic Transition Action Response Team (START) [evidence: Charter Document], The President of Imperial Valley College and the Board of Trustees are fully engaged in pursuing the many recommendations provided in the FCMAT Report [Evidence: Board Minutes where an action plan was presented for review].

The content below lists in detail the revised financial strategy **that will result in balanced budgets that have ongoing revenues to meet or exceed its ongoing expenditures without the use of reserves.**

Financial Stability

The first step in addressing financial stability is to evaluate the College's budget process. The process begins with a planning calendar. The planning calendar is crucial as it ties financial resource allocation with institutional planning. The College laid the groundwork for a new budget and planning calendar to be initiated in the 2014-15 Academic Year *[evidence: Budget and Planning Calendar Draft, EMPC Meeting Minutes]*.The calendar will set the stage for improved program review and evaluation, which will directly impact the budget development process. This calendar is in the process of being introduced to the multiple shared governance committees impacted as a discussion item *[Evidence: College Council agenda, Academic Senate Agenda]*. The College is committed to the successful implementation of these important changes, as it will ensure adequate time for review by cost centers and the Budget and Fiscal Planning committee.

One challenge the revised planning and budget calendar will address is giving the institution time to react to budget changes and how they impact the 50% law. Establishing budget planning criteria for maintaining compliance with the 50% law was a recommendation made by FCMAT in their final report [evidence: FCMAT report]. Before a budget is given to the board for adoption, an analysis of its impact on the 50% law must be considered. Once a budget is adopted, additional items must first be reviewed to determine its impact on the 50% law.

The underlying principle of our budgetary process is that ongoing revenues will meet or exceed ongoing expenses without the use of reserves. The planning calendar will ensure that this principal is adhered to as the assessment will occur during the planning process.

It was acknowledged in the College's 2012 self-evaluation report that the institution faced the challenge of integrating its financial planning with the other individual plans that are developed within the college. To address this, the College moved forward with the purchase of the Strategic Planning Online Software (SPOL) *[evidence: Board Agenda approving purchase],* which is a strategic planning tool that will allow the college to clearly link its program review with its financial planning *[Evidence: SPOL Narrative from Erin]*. SPOL takes into account the Educational Master Plan goals of the college, delivering them in a collaborative way where everyone can participate in planning, budgeting, and measuring the results.

SPOL paves the way for the College to ensure that financial decisions are developed from program review results, institutional needs, and plans for improvement. SPOL consists of Planning Units *[Evidence: List of Planning Units in SPOL]*, which represent the various entities of the organizational structure. Each Planning Unit is then linked to the College's institutional goals, budget, assessment, and accreditation standards by defining a planning objective. The planning objective includes what they do, why they do it, how it can be measured for success, what it will cost, and if assistance is needed from other planning units *[Evidence: Show SPOL example of objective]*. When Planning Units request additional funding, this will appear in an "enhanced" column for consideration *[evidence: SPOL example of enhanced column]*. SPOL will assist the College in identifying on-going expenditures, one-time expenditures, and new-ongoing expenditures; which will aid the College in developing a three-year budget projection. It ultimately creates an environment of budget ownership among individuals who play a key role in the budget development process.

The College recognizes that additional funding requests must be handled within the constraints of the underlying budget principle already established; with the challenge being integrating new budget requests into our ongoing budget, when faced with limited or no revenue growth. The College has established the President's Budget Review Committee to conduct this evaluation. This committee, which is currently being formed, will review the prioritized list of resource requests from the enhancement column data extracted from SPOL.

One of the boundaries in reviewing the enhancement requests is the College's ability to generate revenue efficiently. The College is working to improve efficiency in our revenue generation through class size analysis. Our recently passed faculty contract included a requirement to increase the minimum class size from 25 to 28 unless safety and/or legal reasons require a smaller class.

During our fall semester, we had 142 sections with class caps of 25 that also had fill rates approaching 100%. We are projecting that there is sufficient demand for these sections, and that in the Spring Semester, the increase in class cap will allow us to add approximately 425 additional students, and will generate approximately $300,000 in additional revenue each semester without incurring any additional costs.

In the longer term, at the recommendation of the FCMAT report [Evidence: FCMAT report], the College plans to work towards increasing the average class size from 29.06 to an average of 35. Due to the limits of state funding for growth, we do not anticipate that this increase in average size will result in a large increase in funding. Instead, increasing the average class size will allow us to reduce the number of sections that we offer while maintaining or slightly increasing our student headcount. The savings will be a result of offering fewer sections. We anticipate that by increasing efficiency in our class offerings that we will be able to reduce our individual class offerings by approximately 180 class sections without reducing services to students. This will result in savings of approximately $500,000 per semester.

In the foreseeable future, it has been determined that our anticipated revenues are going to be relatively flat. This means efficiencies will be gained from cost containment. The College has determined that energy efficiency is one area where we can potentially contain cost. Examples of the steps taken towards this include: Adding more efficient lighting (converting from T-12 to T-8 light bulbs), occupancy sensors in the classrooms, converting from metal halide lamps to T-5 florescent lamps in the gym, and switching lights in the parking lot to a more efficient voltage. Furthermore, we are reducing the cost of lighting through the use of dual pane windows and solar tubes. All of the new construction and remodeling projects and being designed to meet Leadership in Energy and Environment Design (LEAD) standards [Evidence: LEAD certification].

In addition to the above actions, the College will be taking advantage of proposition 39 funds over the next five years by submitting qualifying projects to the state for funding. This allows us to continue to replace existing equipment with more energy efficient equipment.

The College, in attempting to control labor and benefit costs, developed a compensation philosophy. The Institution is in the process of working with bargaining and non-represented groups to modify contracts to contain cost by implementing this philosophy [Evidence: Compensation Philosophy as approved by the Board].

General Fund Reserve Level

A significant step in changing the financial structure of the College was to review what an appropriate reserve level is for the General Fund. The Budget and Fiscal Planning Committee reviewed the following criteria for establishing an appropriate unrestricted reserve: The amount needed to fund existing operations, any high value equipment that could fail in the near future, and any other reasons for reserve use.

Based on a review of the above criteria, the Budget and Fiscal Planning Committee recommended to the Superintendent/President and to the Board of Trustees a reserve level of two months, or 16.6%. The Board of Trustees adopted this recommendation at their [Evidence: April 27th Special Board Minutes] board meeting.

All stakeholders have been notified of the importance of reversing the trend of declining reserves [Evidence: Academic Senate and College Council Minutes]. The Budget and Fiscal Planning Committee is currently in the process of developing a strategy to further grow the reserve level from 6.8% to 16.6%, which is an increase of approximately $3.5 million dollars. Any recommendation regarding this strategy must be such that the annual contribution amount can be made on a consistent basis, and the dollar amount cannot be disruptive to the annual operational budget. [Evidence: Budget and Fiscal Planning Agenda/Minutes].

Based on the above criteria, the Budget and Fiscal Planning Committee is considering that initially any favorable year-end actual-to-budget variance will be a contribution to the unrestricted general fund reserve. It is estimated that this approach would generate approximately $350,000 per year.

Retiree Health Benefit Costs (OPEB)

Besides addressing the issue of increasing the level of unrestricted reserve, the College is also developing a strategy to fund the College's OPEB (Other Post Employment Benefits) liability. Currently the College pays health premiums on a "pay as you go" basis for current retirees. This is not a sound strategy as it is not sustainable in the long-term. The Budget and Fiscal Planning Committee, using the information contained in the actuarial study, is developing a strategy to fund the long-term debt created by this benefit [Evidence: Budget and Fiscal Planning Agenda/Minutes]. In addition to the actuarial study, the College had already begun taking steps towards decreasing its exposure to this liability when it eliminated retiree health benefits for new hires effective _____________ [Evidence: Contracts].

The primary action will be to set an annual contribution amount with annual increases so that the OPEB liability can be controlled. The end goal for a workable plan is to address the debt associated with the OPEB liability and have it covered within a reasonable time. This plan will also have the added benefit of relieving pressure on the General Fund budget in the future.

Conclusion

The items mentioned above will be monitored for progress and adjust as needed to ensure successful implementation.