PROGRESS REPORT ON
FINANCIAL PLANNING AND STABILITY

CITY COLLEGE OF SAN FRANCISCO
50 Phelan Avenue
San Francisco, California  94112

Prepared for
Accrediting Commission for Community and Junior Colleges
Western States Association of Schools and Colleges
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Statement on Report Preparation

This report was prepared by the senior staff of City College of San Francisco including the following individuals:

Chancellor: Philip R. Day Jr.

Vice Chancellor for Finance and Administration: Peter Goldstein

Vice Chancellor, Institutional Advancement/
Accreditation Liaison Officer Robert Gabriner

Drafts of this progress report were discussed with the Planning and Budgeting Council (March 2, 2007), the College’s primary shared governance organization for planning and budgeting; and members of the Board of Trustees at both their February and March 2007 work sessions.

Dr. Philip R. Day Jr., Chancellor
I. Background

City College completed its comprehensive self-study for re-accreditation in January, 2006, and submitted it to the Western Association of Schools and Colleges. An appointed team of peers visited the campus, March 20-23, and their recommendations were forwarded to WASC. Re-affirmation of accreditation was awarded at a meeting of WASC, June 7-9, and the college was notified, on June 29, 2006, of the approval along with a set of formal recommendations by the Association. Among the recommendations, one was of sufficient importance that WASC requested a special progress report to be submitted by March 15, 2007. The recommendation, identified as Recommendation 4, was the following:

...that the college develop a financial strategy that will: match ongoing expenditures with ongoing revenue; maintain the minimum prudent reserve level; reduce the percentage of its annual budget that is utilized for salaries and benefits; and address funding for retiree health benefits costs.

II. Response to the WASC Recommendation

Prior to the visit of the WASC team, the college had identified the need to restructure its financial resources in order to achieve balances between revenues and expenditures in the near and long term, as well as maintain healthy reserves. The Chancellor devoted a considerable portion of his Flex Day Address, entitled On the Edge, delivered in January, 2006, to the subject of “fiscal regeneration.” In that message, he called for an examination of the college’s overall fiscal condition and a process for review and recommendation of budget reallocations over a multi-year period. By February, a process had been developed and presented to the Board of Trustees, the Planning and Budgeting Committee, the Chancellor’s Cabinet, and other shared-governance groups. There appeared to be widespread understanding of the need for overall budget review and a document describing the review process was prepared and disseminated on February 20. The document, Overview of the Comprehensive Budget Review and Recommendation Process, is included as Attachment A to this report.

Throughout the spring, 2006, the Planning and Budgeting Council (PBC) met twice each month to provide oversight for the initial phase of the process described in the Overview document. A systematic approach was developed for data collection on all programs and units of the college, including academic affairs, student development administration and finance, and institutional advancement. Every division completed an evaluation of all its programs and services utilizing a standardized template or format and data gathered by the Office of Research as well as by the units themselves. On the basis of this research and the deliberations that followed, the four major divisions of the college prepared assessments and submitted reports to the PBC identifying numerous opportunities for cost savings and reallocations in their respective areas. Sometimes the opportunities included potential revenue generating initiatives; most of the time the opportunities were for cost savings or reallocations.

The process was extraordinarily productive. In May, 2006, the PBC wrapped up the spring semester with a summarization of the divisional profiles and steps for continuation during the summer and fall. Progress Report #1 was prepared as a record of the work of
the PBC. The work resumed in August and September, and the extensive results of the fact finding period were then issued in Progress Report #2. By November, 2006, the PBC had been able to identify seventeen areas of opportunity for revenue generation and cost savings. The two progress reports and a list of the seventeen recommendations are included as an attachment to this report (see Attachments B1; B2; and B3).

In addition to the organized budget review process coordinated with the PBC, a parallel review and reallocation process occurred in several divisions of the college. Individual administrative units undertook specific projects designed to achieve greater effectiveness and cost efficiency. The Office of Admissions and Registration, building upon a re-engineering effort, participated in a comprehensive review of its services conducted by a consulting team appointed by the American Association of College Registrars and Admissions Officers (AACRAO). The visiting team produced a report containing specific recommendations which are now being implemented.

The division of Finance and Administration also developed plans for re-engineering and engaged a specialist in business process assessment under contract with the Strata Information Group. The Payroll Office developed and implemented automated procedures resulting in a significant reduction in the amount of resources dedicated to payroll production.

Finally, the Chancellor and the Office of Governmental Affairs in collaboration with other statewide groups mounted a sustained advocacy program to win state approval to fund non-credit instruction in the manner that credit-based instruction is funded consistent with SB 361. The effort succeeded in producing a budget for FY07 which contains new revenue for City College, including both non-credit instruction revenue and revenue for basic skills instruction and services. The expectation is that over the next three fiscal years, the non-credit funding rate will be the equivalent of 90% of the credit rate, thereby giving the College a significant infusion of new dollars which will sustain the College’s budget stability.

The combination of the organized budget review process and the individualized initiatives described above have begun to produce a new awareness and a shared sense of responsibility for fiscal reallocation at City College. There is a clear movement in the direction of effectiveness and efficiency in the management of fiscal resources. There are also tangible results in the revenue and expenses of the current fiscal year, as the following section on progress indicates. The budget review process, however, is a long term effort and it is expected that the major benefits of the budget review process will be realized increasingly over time. The budget review and recommendations process is not a one-year effort. It is a multi-year process that will continue indefinitely.
III. Progress in Addressing the WASC Recommendation

This progress report, in the above sections, describes an overall process for fiscal review and restructuring underway at City College. In this section, the report addresses each of the specific concerns outlined in Recommendation #4 of the WASC visiting team, “Financial Planning and Stability.” What follows is a summary of what the college has achieved or what remains to be achieved in the four areas specified: matching on-going expenditures to on-going revenues, maintaining prudent reserve levels, reducing the percentage of the annual budget utilized for salaries/benefits, and addressing retiree health benefits.

A. Match On-going Expenditures to On-going Revenue

The College has benefited greatly from the state’s improved financial condition during fiscal year 2006-07. Specifically, the combination of the largest state COLA in many years as well as the first ever improvement in funding for Non-Credit instruction have provided the College with adequate revenues to bring itself back into balance in a very short span of time. The College’s final adopted budget for 2006-07 is not only balanced, but in a reversal of the pattern of the last few years, the College will transfer $2.1 million from the 2006-07 General Purpose Block Grant into its reserve as a significant first step in restoring overall fiscal health. This transfer will bring the Board Designated Reserve back up to a total of $6.65 million.

The College’s enrollment has now stabilized after a two year period of decline. While final figures are not yet available, the spring 2007 semester will show a significant increase in FTES over the spring 2006 semester. This development combined with the transfer of FTES from summer 2006 into the FTES count for 2006-07 will ensure that the College will reach its state funded growth cap for 2006-07, thereby providing a higher level of base funding from 2007-08. In addition, it remains possible that the final stages of implementation of SB361 will be funded in the 2007-08 and 2008-09 state budgets resulting in further improvements in state funding for Non-Credit instruction. If this additional funding is provided the College should have adequate new revenues to ensure both balanced budgets as well as modest increases in its designated reserve.

B. Maintain Minimum Prudent Reserve Level

The college has achieved the goal of restoring the Board Designated Reserve to the level of $6.65 million, as stated in the previous subsection.

C. Reduce Percentage of Annual Budget Utilized for Salaries/Benefits

The improved state budget for fiscal year 2006-07 has also allowed the College to make some progress in funding non-personnel costs. However, this progress has been attributable to one-time funding and will not be sustainable if such one-time funds are not included in the final 2007-08 state budget. The College is located in one of the highest cost areas in the country and this is reflected in the cost of the current salary and benefits structure. The comprehensive review of all spending areas hopefully will identify some opportunities for ongoing improvement in this area.

D. Retiree Health Benefits

An independent actuary has determined that the College has an unfunded liability of approximately $130 million for the cost of retiree health benefits. The College’s 2006
independent audit has been completed and this unfunded liability is now included in the College’s financial statements. Preliminary discussions on this issue have been held with the labor unions that represent the College’s workforce. The College’s plan for addressing this item is to join the investment consortium sponsored by the Community College League. To date, the College is in extended discussions with our collective bargaining units to identify funds that need to be set aside to pay for this liability, or to change the terms under which employees qualify for post-retirement health benefits.

IV. Next Steps

In the next few months, the PBC will be evaluating “targets of opportunity” for review and re-allocation. To evaluate the options and make recommendations, an instrument has been prepared for assessing the impact of the reallocation decisions on future budgets. Potential dollar modifications are being identified for each fiscal year, which then may be incorporated into the recalculated projected income-revenue-balances for those years. Thus, it will be possible to visualize an improved fiscal picture over time. The format for the potential cost savings (and investments) is included as an attachment.

The specific steps for the remainder of the spring, 2007 and beyond, include the following:

1. Complete the assessments of each of the seventeen areas of opportunity and identify the options for savings/investments. The PBC will utilize a planning matrix for assessing the impact of the reallocation decisions on future budgets. The matrix will identify potential dollar modifications for each fiscal year, which then may be incorporated into the recalculated projected income-revenue-balances for those years. Thus, it will be possible to visualize an improved fiscal picture over time.

2. Prepare a report of the options for savings/investments and adopt priorities targeted for implementation in the next 2-3 fiscal years. These recommendations will be forwarded to the Board of Trustees for approval.

3. Develop implementation plans for the highest and most immediate priorities, appointing designated persons to be responsible for the planning and implementations.

4. Continue the dialog and review process to identify other opportunities for savings, reallocation, and investment, as well as the assessment of opportunities already identified but not targeted for implementation.