Improving Financial Effectiveness of Community College

American Association of Community Colleges
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“The difference between what we do and we are capable of doing would suffice to solve most of the world’s problems”

~Mohandas Karamchand Gandhi
Presentation Outline

- Economics: Our Time, Our place
- Community Colleges at Center Stage
- Pathway to Problem Solving: a Paradigm Shift
- Tactical Options: Revenue Generating Activities and Cost Containment
Economics: Our Time, Our Place
Is the Prevailing Financial Model of Community College Sustainable?

- State, local, and national appropriations remain imperative — but:
  - Government budget deficits persist
  - Funding remains unpredictable
  - Affordability, access, and quality of education will increasingly depend upon self-reliance
U.S. government debt @ $12.3 trillion @12/31/09 2009 = 84% of gross domestic product*

* U.S. Dept. of Commerce, 2010

- U.S. Debt @ 9/30/00 = $5.7 trillion
- U.S. Debt @ 9/28/90 = $3.2 trillion
- U.S. Debt @ 6/30/60 = $286 billion**
  ** U.S. Treasury Direct

U.S. current account deficit = 6% + of GDP

Deficits 44% financed by foreign debt holders
## State Budget Realities

- **State budget deficits** 2010 forecast total $180 billion

<table>
<thead>
<tr>
<th>State</th>
<th>Deficits</th>
<th>Percent of budget</th>
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<tbody>
<tr>
<td>Illinois</td>
<td>$12.8 billion</td>
<td>34.3%</td>
</tr>
<tr>
<td>California</td>
<td>12.3</td>
<td>12.5</td>
</tr>
<tr>
<td>New Jersey</td>
<td>10.0</td>
<td>34.0</td>
</tr>
<tr>
<td>New York</td>
<td>8.2</td>
<td>14.8</td>
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<tr>
<td>Florida</td>
<td>4.7</td>
<td>18.1</td>
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WSJ 3/16/2010
State & Municipal Debt Soars

- Total State & Municipal Debt: 2000 = $1.19 trillion
- Total State & Municipal Debt: 2005 = $1.85 trillion

Cato Institute July 2006
Unsustainable Consumer Debt

- Total consumer debt = $13.5 trillion at ’09
  = 43.8 thousand per person
  = 120% of disposable income
  WSJ 3/12/10

- Bottom 40% of U.S. households = .2% nations wealthy
- Top 20% of U.S. households = 84.7% nations wealthy

Federal Reserve Board
Survey of Consumer Finance, 2007
Tuition Cost of Higher Education

- 1976 – 77 = $7,940 private/ $1,933 public
- 2007 – 08 = $23,712 private/ $6185 public
- Average annual tuition and fees at community colleges rise 340% in inflation adjusted terms

1977 – 78 → 2007 – 08

Delta Cost Project, 2009
College Board, 2007
Concerns:

- **Affordability barometer**
  - Tuition and fee increases exceed CPI and MHI
  - Are student loans a viable alternative?
  - High unemployment, underemployment, and uncertainty
Community Colleges: At Center Stage
Quantitative Dimension

Community colleges at Center Stage

- Enrollment 6.7 million (credit)
  11.7 million (total)
- Awarded 612,915 Associate Degrees
  328,268 Certificates

AACC, 2009 data
Challenges and Concerns

- Mission expansion
- Expectations
- “At risk” students
- Accountability
- Costs
- Diverse/ 1st generation U. S.
- Growth – “For profits”
- Technology
Concerns:

- Will dependence on adjunct faculty at the academic core erode quality of education?

- Can we compensate by attention such quality controls as faculty preparation, orientation, integration, training, assessment and evaluative processes?
Cost Pressures

- Healthcare insurance
- Construction
- Operational technology
- Campus Security
- Energy
- Repairs and maintenance
- Instructional Technology
- Compliance
More Cost Pressures

- Scope/Content – Student support services
- Systematic monitoring of learning outcomes
- Contractually mandated salary increases
Additional Variables

- Leadership
  - Institutional
  - Board of trustees
- Governance
- Community Interests
- Faculty Commitment/Position of faculty unions
- Performance Expectations
Good News: Public Perception

- Educational and workforce → mission critical
- Bipartisan political support
- Lifelong partner in learning
- Employers → “high value” partnerships
- “First responders” → displaced workers
- “safety net” → “At risk” learners
Why Change?

- Community colleges are already agile, reasonable stewards of limited financial assets, and sensitive to affordable tuition..............but......

- Times have changed, performance expectations have risen, and economic realities preclude access to government funding at levels required to remain affordable
Does Perception Matter?

- “There has been little progress in translating cost data into information that can be used either to inform strategic decision making or to show how the public institutions spend their money….Every institution should be able to tell students, boards & legislatures basic facts about where the money comes from, where it goes, and what it buys.”

Jane V. Wellman, Delta Cost Project, *Trends in College Spending*, 2009 (Funded by Lumina Foundation)
Pathway To Problem Solving: A Paradigm Shift
Overarching Theses

- Increased self reliance:
  - Is achievable
  - Can be quantified
  - Can mitigate the impact of reduced government funding affordability and access
  - Is compatible with improved educational quality
  - Will foster a “culture of ownership”
Institutional Effectiveness: Systemic Reforms

- Agree on enduring goals
  - Subject revenue generation and cost containment to continuous data review, planning, actions, performance
  - Adverse impact on educational quality is non negotiable...."off the table”
  - Sustain affordability via generating non traditional revenues and containing costs
- Adopt assessment and continuous improvement cycles
- Strategic and collaborative leadership
Phase I. Formative Stage

- Develop data based case for change
- Communicate “Sense of Urgency” (1st – Board of trustees; all stakeholders)
- Mobilize constituents
- Launch “Guiding Coalition”* (Steering Committee) – Composition criteria: creative, respected, proven leaders, reflective thinkers, team players, good listeners/communicators and inspirational – change agents

*John Kotter, Leading Change
Formative Stage: Continued

- Create a continuous improvement environment
- Strategic plan – agree upon scope, duration, content, process, sources of information, accountability and timeline (Gant chart)
- Steering committees – identify sub-committees and chairs/co-chairs
- Communicate launch
- *Embrace a new financial model as integral to strategy*
Phase Two: Strategic Planning

- Call for volunteers
- Traditional sub-committees: environmental scan, education, student persistence, student services, workforce, facilities, technology, human resources, and community education
- Add two creative sub-committees: idea generation for non traditional revenues and cost containment
- Agree upon: mission, vision, values and strategy — priorities (inclusive of the new financial model), direction, duration, implementation plan, critical success factors, resource requirements and measures or scorecard of institutional effectiveness
Data Source Examples

- Community college audited financial statements
- Most recent self-study -- accreditation
- Student, faculty, staff, community surveys
- Student achievement data
- Regional employment/census data and outlook
Data Sources

- Facilities master plan
- Technology plan
- Regional economic development plan
- Product/service costing models
- Operating Budget: revenue/cost centers
Six Sigma*/William Denning

- DEFINE: Problems & Goals
- MEASURE: Collect relevant data
- ANALYZE: Data & root causes
- IMPROVE: Processes (design/implement action plans)
- CONTROL: No unintended consequences/monitor

*Motorola

Transformational process akin to Achieving the Dream/Culture of Evidence
Phase Three: Approval and Buy-in

- Communications: Plan vetting, listening, and refinement: internal and external constituents
- Closure: finalize approvals – Board of trustees and shared governance
- Insert strategic plan on institutional website to assure transparency and common understanding
Phase Four: “Operationalize” the Plan

- Create school year operating plan/goals — align with strategic priorities and operating budget; quantifying financial goals and articulate action plans
- Empowerment: delegating authority to align with accountability
- Leadership “takes ownership” — measureable performance evaluation objectives (realistic, time sensitive and measureable) and plans of action in support of operating goals
Phase Five: Process Management

- Design management reporting/proof statements and oversight plan
- Monitor progress reports monthly with senior leadership – focus on plan implementation (special attention to financial performance of new initiatives)
- Sustain accountability for results consistent with performance objectives and annual operating goals
- Annual performance evaluation inclusive of financial metrics
Provide annual reports to board of trustees and stakeholders of performance relative to annual operating plans and goals — explicit attention to the new financial model

Insert annual reports on institutional website once presented to board of trustees
Institutionalize Continuous Improvement

- Document and communicate results
- Continuous assessment of evidence, use of data based planning and commitment to plan “execution”
- Reduce dependence upon senior leadership as change agents…institutionalize behaviors
- Accountability for institutional financial performance becomes a core value
- Reward achievers/ identify and deal with habitual sub-standard performers & opponents of change
Performance Metrics

- Annual objectives
  - Clear
  - Measurable
  - Time sensitive

- Values and behaviors
  - Observable
  - Documentable
  - Consistent with values in strategic plan
Metrics of Success

- Improve educational and student services: identify & report on performance indicators
- Tuition/fees= 5 year average tuition and fee increases not exceed CPI and MHI (Median Household Income)
- Assure visibility: quantify & report non traditional revenue generation and cost reductions
- Continuous self-reliance and financial improvement cycles
Tactical Options: Revenue & Cost Containment
Four Quadrants of Reform

- Emergency cost containment measures (year one)
- Data based cost containment (medium term)
  - Analysis ➔ plans
  - Plan implementation
- Short term revenue boost (year one)
- Build & grow sustainable revenue generating business enterprises (medium term)
Apply Financial Analysis Tools

- Product costing
- Cost/benefit (student & institutional perspective)
- Break even (new services, businesses, technology)
- Return on investment
- Cost allocation
- Create & analyze educational, service & business center units.....set goals.....management reporting & accountability
Emergency Cost Containment Measures

- Identify Choices/ Line Item Budget Review
- Set Year One Cost Containment Target
- Develop a Comprehensive Intervention Plan
- Obtain Governance Approvals
- Communicate Plan
- Set Plan in Motion
- Monitor to Assure Follow-up and Results
- Report Results to Stakeholders
Short Term Cost Containment Choices

May Include:

- Reduce non faculty full time positions
  - Attrition
  - Program Consolidation/Elimination
  - Retirement Incentive Plan
  - Hire early retirees from industry/military for administration & services- part time

- Reduce discretionary spending: travel, entertainment, dues
- Reduce marketing budget
- Increase student enrollment per class section
- Refinance long term debt during low interest rate cycles
- Act on task force recommendations
Medium Term

Data-Based Cost Containment Choices:

- Implement “Zero-Based” Budget Review of Staffing and Administration Structures to Meet Current and Future Needs
- Flatten administrative structures/eliminate redundant functions
- Process Reengineering to improve efficiency
  - Simplify service processes
  - Improve service quality
  - Reduce labor content
  - Optimize technology for efficiency & effectiveness gains in accounting, operations and management reporting
Other Examples: Cost Containment

- Procurement Consortiums: healthcare, energy, supplies, others
- Program reviews: reduce, eliminate, low demand programs
- No “Sacred Costs”: sports, clubs, ”we've always done things this way"
- Explore outsourcing and in-sourcing options (bookstores, security, computer and processing services, call centers, energy, legal, custodial etc)
Program Review Decision Matrix

- Low student enrollment/low occupational demand = exit
- High student enrollment/low occupational demand = “harvest” (no incremental allocation of resources)
- Low/medium student enrollment/high demand = marketing plan/allocate resources--growth
- High student enrollment/high occupational demand = Dominate marketplace
Short Term Revenue Boost: Examples

- User Fees:
  - Parking
  - Transcripts
  - Community education
  - Customized job training

- Maximum use of classroom facilities

- Act on Task force recommendations
Build Sustainable Business Enterprises

- Workforce/skill-based training – profit generation

- Community education – focus – tutorial and other services

- Corporate services

- Sub-lease properties
  - Conference rooms
  - Unused offices, classroom, sports, auditoriums
  - Drilling rights: Marcellus shale
Community College Success Stories

- SAIT Polytechnic, Calgary
  - Worldwide employee training = $42 million CDN
  - Commercial services = $21 million CDN
    - Total = est. 24% of total revenues ’09
- Paris Junior College (plan) self generate $730,000 in 5 years through improving student retention
- Central Piedmont CC = corporate services, 501C3
- Tuskegee Institute = faculty, students and staff designed and built most 19th century buildings
  - Brick making a “for profit” business

Booker T. Washington, “Up From Slavery”
Student Perspective of Cost

- Tuition
- Fees
- Textbooks
- Transportation
- Childcare
- Lost income
Student Centric Solutions

- Tuition increases in line with CPI/MHI
- Reduced fees
- Digital/used textbooks...pc access to books/articles
- Work/study programs (Northeastern U. model)
- Childcare co-ops
- Car pools, public transit
- Degree & certificate programs via distance education
Student Centric Problem Solving

- Involve students in dimensioning their cost problems
- Involve students in creating solutions
- Align students financial interests with desirable learning outcomes and the new financial model of the community college
Vision

Americas’ 21st century community college is the place where student centric planning, creativity, sound processes, and operating efficiencies converge---at prices that remain affordable.
A round man cannot be expected to fit in a square hole right away. He must have time to modify his shape.

~ Mark Twain
Presenter’s Background:

- Edward J. Valeau – President/Superintendent Emeritus Hartell Community College: President Emeritus California College for International Education; Managing Partner, Education Leadership Service Group (evaleau@elsgroup.org)

- Stewart Sutin – Clinical Professor, Administrative and Policy Studies, Univ. of Pittsburgh; former President, Community College of Allegheny county; former Senior Vice President, Head of International, Mellon Bank; former President, Bank of Boston International (ssutin@pitt.edu)