November 16, 2012

Oakland Community College (OCC)

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Summary: This report is submitted in response to the contract signed September 5, 2012, between Oakland Community College (OCC) and Mike Brandy (consultant). This contract identified seven tasks to be completed reviewing budget processes, fiscal policies and capital outlay processes. A copy of the approved tasks in attached. The first progress report detailing the work to date was submitted October 12, 2012 to the Chancellor, after initial analyses of the tasks and a site visit to the college September 23-26. A copy of the September meeting schedule is attached to illustrate the scope of meetings with the staff, the auditors, and the audit committee chair. This report was reviewed with the Chancellor on October 18, 2012. Input from discussions with the Chancellor, the Vice Chancellor, Administrative Services as well as additional research and analysis, have now been incorporated into this final report.

This final report is submitted to the Chancellor for review and clarification if necessary.

This report would not have been possible without the full cooperation of Oakland Community College staff who made themselves available without hesitation for in person meetings, phone calls and email inquiries. Their cooperation is appreciated.

The analysis and recommendations contained in this report builds upon the strengths of Oakland Community College. The recommendations are intended to enhance the ability of OCC to serve students through strong fiscal policies and budgetary processes. Two central themes are woven through each task analysis. These themes are transparency and active engagement of administrative and constituency groups. By making changes in processes and philosophy of engagement and transparency, Oakland Community College can become an even better institution to serve their students

Attachments

1. *September 24-26, 2012 Schedule at a Glance*

18. *Approved Tasks under contract dated 9/5/12*

Task One: Structure Fund Balance
"Task definition: To make fund balance transparency a feature of all budget presentations and quarterly financial reports; to have the Board approve a policy on designation of fund balance and use of reserves."

Observations:

The Board does not review the fund balance in the general unrestricted fund on a regular basis. The Board does not review the fund balance in any of the restricted funds except during the annual audit. Additionally, the board does not take formal action on designations of the unrestricted fund balance.

Discussion:

A review of the June 2011 audit (the latest audit available at the time of this report) reflected a combined fund balance of $193,507,935. The balances by fund were as follows:

Plant Fund	$124,284,733
Endowment and Similar Funds	18,210,396
Designated Fund	9,194,701
Auxiliary Services Fund	3,819,514
General Fund	37,998,591
Total	**$193,507,935**

In the notes to the audited financial statement (p. 19), the college reported that the net assets that are not subject to externally imposed restrictions were designated as follows:

Designated for capital outlay and Major maintenance	$124,284,733
Quasi-endowment	18,210,396
Auxiliary activities (Child care)	3,819,514
Instructional programs	194,701
Future retirement contributions	8,000,000
Future health costs	1,000,000
Unrestricted and unallocated net assets	37,998,591
Total	**$193,507,935**

Monthly reports on the investment portfolio and cash balances are submitted to the board each month, but these reports do not reflect the fund balance in each of the college funds nor the balances projected in those funds at year end. Beginning and ending fund balance are a normal part of budget presentations and allow the college to display the effect of the operating surpluses or deficits on the fund balance. It is recommended that the college revise the current format of the reports submitted to the Board and concurrently move to a more robust quarterly reporting cycle, instead of monthly reports. The revised version of Board reports submitted quarterly would include adopted budget, revised budget, actual revenue and expenses to date, forecasts for the end of the year, and projected changes to ending fund balance for that fund.

Board Policy does not appear to contain any references to level or designation of reserves.

There are several issues that arise concerning this topic:

Transparency: It is recommended that the college become more transparent regarding fund balances and the designation of reserves by establishing regular quarterly reports to include fund balance projections.

Policy or Board Resolution: It is recommended that the board establish either a policy or a Board resolution on the use of reserves for cash flow, emergencies, capital outlay, major maintenance, technology, unfunded pension and medical liability, and other designations to meet the short-term needs and long-term strategic goals of the college.

General Fund Reserves**:** The balance in the general fund reserves was $37,998,591 in June 2011, representing about a 25% reserve in the general fund. There is not a legal requirement for the board to establish a policy on reserves. In some colleges, boards have taken this step; in others they have not. Examples of Board policies from Wayne County Community College and Lansing Community College are attached to illustrate how two Boards have taken formal action on general fund reserve levels. In other districts, the policy is not formal, but there is a clear working assumption on the part of administration that a certain percentage reserve would be maintained.

Another option used in some districts, in lieu of a Board Policy, is to have the Board adopt a resolution stating their intent regarding reserves. A sample Board Resolution, which was used as a model in another state, is attached.

At the very least, it is recommended that the OCC cabinet discuss the issue of general fund reserves so that the Chancellor can make a determination of what general fund reserve target would be prudent.

Designated Fund Reserves: The 2011 audit report reflected designations for future retirement contributions of $8,000,000 and future health care costs of $1,000,000. It is recommended that the board take formal action on transferring funds into these accounts while at the same time designating the use of these reserves**. One of the most significant threats to the long term fiscal stability of the district is the unfunded liability of the state pension system and the state retiree medical benefit unfunded liability.** This is a major issue in almost all public sector agencies as most agencies have not funded the future liability obligations of medical benefits and pension costs. It is not clear at this time what the potential share of the state's unfunded liability would be for OCC, but it is certain that OCC will have to pay an increased contribution to fund this liability in future years. Analysis of the potential impact of this liability should play a critical role in the designation of reserve balances for OCC as the liability will certainly impact long term budget planning. It is recommended that OCC determine its potential liability for the MPERS Pension System and the Retiree Medical Benefits liability and develop a long term budget plan to set aside funds in a Irrevocable Benefit Trust. This proactive action by OCC will have a significant impact on the long term fiscal stability of the College.

Capital Outlay reserves: The 2011 audit report reflected reserves in the Plant Fund of $124,284,733. It is recommended that these reserves be designated for specific purposes to include: new construction, major maintenance, and undesignated reserves for future capital outlay. The building blocks for these designations will come from:

a. The current facilities assessment project: The results of this project will provide an analysis of cost of repairs and maintenance for facilities, and will be an excellent building block to incorporate into the capital outlay master plan.
b. New construction: The academic master plan should drive the need for new facilities based on program growth or program change. Once the need is established and prioritized, the possible methods of funding can be identified. If a project is going to be submitted to the State of Michigan for matching funds, it is recommended that board approve the project and at the same time set aside the match in the Plant Fund.
c. Campus needs list: The campuses have a prioritized list of their major projects. Some of these needs will probably be duplicated with the facilities assessment. It is recommended that the major maintenance/renovation budget be set each year based on the prior year fund balance and that the budget be forecasted for the next 5 years based on needs identified in" a" and "c."
d. Undesignated capital: If there is funding left after these designations, it then could be held in an undesignated capital reserve.

Attachments:

2. Lansing Community College Policy EL202: This policy sets the broad parameters for budget development, maintenance of a prudent reserve, and consideration of multiple year, long range administrative plan.

3. Wayne County Community College Policy 3.5.7: This policy sets forth the "contingency fund" and its purposes, as well as the Capital Outlay and Equipment Acquisition reserves.

4. Sample Board Resolution on General Fund Reserves

Task Two: Develop multi-year budget/process

Task definition: "Define a timeline and a process for development of the annual budget including the future 2 years. This process would define the role of the Cabinet and the governance process. Develop model for multi year budgeting; recommend comprehensive fiscal self-assessment tool."

Observations:

When the adopted budget was presented to the Board, some discussion occurred about long term changes to the budget, but in order to tie strategic planning to the budget and to forecast changes to revenue and expenses, a more comprehensive multi year model that reflects the major revenue and expense variables would serve the college well. Incorporating trend analysis on budget and actual revenue/expenses and developing a broader range of tools to assess fiscal health would strengthen fiscal analysis. Adopting strong principles to tie the budget allocation process to the major College planning initiatives, adopting a standard of transparency, actively engaging key administrative committees and governance committees, would all strengthen the budget process.

Discussion:

A review of the adopted budget presentation for the 2012-13 budget identified a number of missing pieces that would have to be incorporated if the guidelines for a multi year operating and capital budget were followed.

First, the budget document only presents the General Fund. It does not present the proposed revenue, expenditures, transfers and fund balance for any of the restricted funds (Designated Fund; Auxiliary Services Fund; Restricted Fund; Student Loan Fund; Endowment and Similar Funds; Plant Fund; Agency Fund).
While some of these restricted funds may be intended to "stand alone" (that is operating revenue equals operating expense), it is important to see if transfers from the general fund are necessary to cover shortfalls in revenue. It is common practice to examine the auxiliary funds and the restricted funds to see if they are self balancing. In the instance of the Plant Fund on the other hand, there are no revenues generated. (Revenues from State approved projects or corporate donations etc., would be recorded as revenue in this fund if they are received). The Plant Fund will receive its budget as a transfer from the general fund, so it is critical that the Plant Fund be included in the multi year analysis. For example, how will new buildings and major remodeling projects be funded over the next two years? Will there be a line item in the general fund budget for equipment replacement or technology replacement, or will these expenses be covered in the Plant Fund? Will there be a transfer into the Plant Fund at year's end

only if general fund revenues exceed expenditures? How will expenditures in the Plant Fund be tied to the College Facilities Master Plan?

Second, the fund balance for the beginning and ending of the year is not reflected for the general fund (or any other fund). It is critical to know how surpluses or deficits will be treated at year's end, and how that treatment supports the goals of the board for general fund reserves and transfers to other Designated or Plant Funds.

Some general planning parameters to guide the college in developing a multi year budget are presented below:

Multi year budget timeframe:

It is recommended that the college maintain budget estimates for the current year and for the two subsequent years on a rolling basis, so there is always a two year forecast. Trying to forecast the operating budget beyond two years leads to diminishing returns in terms of accuracy of forecasts.

Revenue and expense planning processes:

Forecasts for some major line items of revenue (e.g. property taxes, state apportionment) and some major categories of expense (utilities, mandatory benefit rates like MPERS & FICA) will be the primary responsibility of the business office. Other major planning parameters such as enrollment forecasts, staffing level forecasts, and medical benefit forecasts require broader college participation. In order for college planning processes such as staffing decisions and the scheduling of classes to occur in an orderly and coordinated fashion, a timeline for assessing variables will be necessary.

Number of variables:

Forecasts should focus on major variables only, as illustrated in the attached budget model. The remaining revenue and expense items will be included, but they will not affect the budget as much. The process of forecasting is a $300 million challenge because the college will have to forecast $150 million in revenue sources and $150 million in projected expenditures.

Model:

The model developed (and attached) is based on a series of excel spreadsheets that allow for the manipulation of various % increases and decreases based on college input and analysis. In determining the range for these variables, the college should be guided by the criteria of "most likely to occur." Choosing increases and decreases at either of the extremes of probability will not serve the college well.

The forecast for the multi year operating budget has two components:

1. Operating Revenue

There are three major sources of operating revenue with different factors influencing their levels:
State apportionment: Because this is the smallest slice of the revenue pie (13%), forecasts for change will have the least effect on overall revenue. The model developed should allow for % increases (or decreases) to this revenue source to determine impact on the overall budget.

Property taxes: This is the largest source of revenue (48%). The model should allow for % increases or decreases to this revenue source. Planning input from the county assessor's office will be critical to estimate the range of change to this revenue source.

Student fees and tuition: This revenue source (35%) is most directly under the control of the Board. The Board has authority to set fees and has adopted a five year plan to increase tuition at the rate of 7% per year. This action provides a level of confidence for the business office to forecast this revenue source and a level of stability to students to know what fees they can expect to pay. The more complex portion of calculating this estimate is tied to student enrollment or, more specifically, Student Credit Hours (SCH). The forecast of enrollment (SCH) should be tied to the college strategic enrollment plan, as informed by student demand. Once the enrollment (SCH) parameters are agreed upon through the college planning processes, the projected revenue and the cost of instruction (full time teaching and adjunct faculty) can be calculated by the business office.

2. Operating Expense
Personnel and benefit projections: 82% of the college budget is devoted to personnel and benefit costs. The business office can project costs of full time personnel assuming a status quo staffing level and can anticipate annual increases to longevity and step movement for staff as well as the offset to those increases caused by normal turnover and reduced salary costs of staff. The business office would also take the lead in establishing forecasting parameters for mandatory benefit costs like MPERS and FICA. However, all other components require broader college participation as discussed below:

Full time staffing: Full time faculty staffing ratios should be tied to the enrollment plans. A minimum number of full time staff is required under the collective bargaining agreement, but the college would have to decide if their goal was to be at, or above, the minimum. Likewise, the staffing costs of adjunct faculty should be tied to enrollment plans. Staffing plans for non instructional staff should follow the process of budget request submittals through the campuses with approval for adding or reducing staff in the adopted budget ultimately with the Chancellor. Assumptions for temporary non teaching staffing levels should be discussed at the cabinet level and incorporated into the budget.

Medical benefit budgets: The budget for medical benefits will be largely determined by negotiated contracts. If there is a cap on medical benefits, this variable will be much easier to forecast for the year. Otherwise, the variance for actual benefit costs can be quite wide.

Supplies and operating budgets: The college has an established formula for allocating supply budgets to the colleges. This allocation formula should be reviewed by Cabinet each year to see if changes are recommended in this planning parameter.

Utilities and liability insurance: The business office would take the lead in preparing forecasts on utility and liability expenditures

Contracted Services: This budget should be reviewed by Cabinet as it will cover critical areas of instructional support by the IT department and the Maintenance department/

Computer replacement: The budget for computer replacement should be developed through the Technology Master Plan. The Cabinet should then agree upon the amount to be included in the budget for that year.

Supplies and Services: The allocation formula for supplies should be reviewed by Cabinet each year to determine if modifications are necessary to that formula.

The attached spreadsheet proposes a format for a multi year budget. It is intended to be simple and flexible so “what if” scenarios could be prepared quickly to see how planning parameters affect revenue and expenditures. It is in an Excel format so it is easy to use. This spreadsheet has been reviewed with the Vice Chancellor, Administrative Services.

Also attached in the appendix is a sample of a one page, multi-year budget prepared by the San Joaquin Delta Community College District, CA. This document is included to illustrate how each college can customize the level of detail to meet specific needs.

Multi year budget plan for capital outlay:

Planning cycle: Capital outlay projects usually have a long planning horizon of at least 5 years, a timeline that is essential to identify funding sources for each project. Funding sources may include Board designation of reserves for capital outlay projects, contributions to the capital program from operating budgets, state funding, corporate match programs, bonds, or short term borrowing tools as well as other possibilities.

In any community college, there is a critical need for a multi-year capital outlay plan. These plans usually have three major components:

New building construction and major remodeling projects,

Major maintenance and infrastructure improvement projects, New technology and technology replacement projects.

The data for these components is driven by the major planning initiatives within the college. The academic master plan sets the framework for instruction and instructional support facilities. The technology master plan sets the framework for technology hardware purchases and major software upgrades. The facilities and maintenance department provides the data for the infrastructure improvement projects. Each one of these planning initiatives has to be operating in a timely and coherent manner to link to the capital outlay plans. Once the capital projects are identified and prioritized through the college planning process, the more detailed cost estimates can be prepared. When this cycle is complete, the college can identify options to fund these projects.

Technology Master Plan:

Most colleges have developed a technology master plan to follow the academic master plan. Typically this plan outlines the technology software and hardware needed to support the academic programs as well as the administrative functions. The data needed from this plan on the financial side are an outline of the long term financial needs for new software, new hardware, and the replacement cycle for existing computers and related equipment. These data would then be incorporated into the long term capital plan along with the physical plant needs outlined above.

It is recommended that the college prepare a multi year operating budget for the current year and two years beyond and maintain that planning horizon on an ongoing basis. This multi-year budget is typically reviewed with the board in the fall for the next three-year cycle.
It is also recommended that the college prepare a 5 year capital outlay budget as outlined above capturing budgets for new construction, major maintenance, equipment replacement, technology and undesignated reserves for capital outlay.

Budget Process

The budget calendar prepared by the Budget Analyst is a very detailed outline of tasks to be completed to prepare the budget. It is recommended that the college prepare a more comprehensive budget development calendar to show the timing of discussions with the College Planning Council, the Cabinet, and the Board of Trustees. This planning calendar should also illustrate how the budget will be communicated with the colleges through presentations and written updates.

Budget development for the following fiscal year typically starts in the fall. While the multi-year budget process outlined above sets the broad assumptions for future years, the work on specific assumptions for the 2013-2014 year would start in Fall 2012.

Typically this begins with the Vice Chancellor, Administrative Services, who presents his first set of assumptions to cabinet for review and discussion. If reductions in expenses appear necessary to balance the budget, the guidelines for reduction are formulated in Cabinet. Once the range of assumptions is agreed upon in Cabinet, they are usually presented to the governance committee for comment. All colleges typically have a master governance body representing all the constituent groups on campus. Input is sought from this governance body on budget planning parameters. The parameters and assumptions for the budget are then moved to the Board level for a discussion of the budget. Normally, this first presentation of budget parameters is discussed with the board at a regular or special meeting in December or January.

Regardless of the specific committees that colleges may use to develop input on the budget, districts using best practices have several principles in common:

1. Planning: The allocation of resources through the budget process is actively tied to the planning processes of the college as articulated in the Academic Master Plan, the Technology Master Plan, and the Capital Outlay Master Plan.
2. Transparency: The assumptions used to develop revenue and expense projections are transparent to the college community.
3. Active engagement: Senior management staff and the senior constituent committee are actively engaged in reviewing assumptions and establishing parameters.
4. Timing: The master calendar for budget development outlines the college's pathway for budget development to allow sufficient time to move through administrative committees, governance committees, and the Board of Trustees.

One of the best examples of a budget document that ties the budget to planning, outlines the process for budget development, and provides analysis of budget trends and planning parameters is the Lansing Community College budget. The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to Lansing Community College for its annual budget. In order to receive this award, a budget document must meet program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. The table of contents for the Lansing budget document is included in the appendix. (The full budget can be seen on their website). It is a superb model to follow for budget preparation and communication.

Fiscal Assessment Tool

There is no standardized measurement tool for community college fiscal health. Most colleges rely on analysis reflecting revenue trends and expense trends as expressed as a % of the operating budget. The typical expense ratios that colleges use are also used by OCC as reflected in the OCC Adopted Budget document. As an example, this document shows that 81.5% of the budget is allocated for salaries and personnel. This is one of the most critical ratios to monitor–both for the adopted budget and for actual expenses over a 5 year period. Typically, in addition to these operating ratios, two additional numbers are critical to monitor fiscal health. The first is the % level of the general fund reserves, as compared to the target reserve level set by board policy or resolution as discussed earlier. For example, if the board establishes the target of a 25% general fund reserve level, the adopted budget should reflect whether that target will be met or not. When the budget year closes, that % of reserve should once again be tracked and disclosed so the board will know if they actually made that target. The other number that should be highlighted for fiscal health is the operating surplus or deficit. Normally a Board would require the budget to be balanced when they adopt it, but in many cases there may be a strategic decision to adopt a deficit budget and fund that deficit from reserves if the Board is trying to manage a short term drop in revenues or an unexpected rise in expenditures.

In the model multi-year budget proposed for OCC, there is a specific line highlighting this surplus/deficit. It is important to review this when the budget is adopted, but it is even more important to review it at the end of the fiscal year to determine whether the college finished with an operating surplus or deficit.

A sample of a type of report that is produced for each community college in California is attached reflecting one district, Foothill De Anza Community College. This report is a good model to show how specific information is pulled into a one page "dashboard" report highlighting critical trends. An added advantage that California has in this regard is that the State compiles this information on their website for all community colleges in California, so comparisons to other districts can be done accurately and easily. OCC could easily adapt this type of report to their needs and make it a standard feature in each budget year.

While analysis of key operating ratios and financial data can provide valuable insight into the fiscal health of a district, a true analysis of fiscal health has to go deeper than this. As an example of how one state developed a much broader review of fiscal health, see the attached "Sound Fiscal Management Self Assessment Checklist." As can be seen from the attachment, this analysis includes examination of enrollment trends, staffing, collective bargaining agreements, strength of position control, management information systems, leaderships/stability, and long-term liabilities among other topics. This self assessment is typically prepared at the end of the calendar year and shared with the Board as part of a workshop agenda to frame the discussion for the coming fiscal year budget.

Both the sample of trend analysis and the fiscal health self-assessment tool could easily be modified to meet the needs of OCC. These tools would provide a very comprehensive review of fiscal health and could be incorporated into an annual fiscal/budget process for the Board of Trustees.

Attachments

5. Oakland Community College Multi Year Budget Model (version 1), electronic version sent via email

6. Multi year budget presentation for San Joaquin Delta Community College, CA

7. Lansing Community College Budget Presentation 2011-2012

8. Analysis of Selected Data from the Annual Financial and Budget Report: Foothill De Anza Community College, CA

9. California Community Colleges Sound Fiscal Management Self Assessment Checklist

Task Three: Investment Manager:

"Establish a standardized procedure for portfolio disclosure to Chancellor and Board; Determine alternatives for portfolio management; review portfolio management policies for similar institutions; recommend a Board policy on investment management."

Observations:

The board has an investment policy, BP 3.10, which stipulates the parameters for investing and reporting. The college uses an in house investment team to manage the portfolio and generate reports. This team consists of one full time person dedicated to investments, the Manager of Banking Services, and the Treasurer, Controller, and Vice Chancellor, Administrative Services. Current investment reports submitted to the Board are not consistent with the Board Policy. The Board policy could be strengthened by identifying the risk tolerance and diversification for the portfolio.

Discussion:

The Manager Banking Services handles all the day-to-day transactions related to the portfolio, and manages the data base which tracks the investment instruments. Under the board policy, the Treasurer (who is now a Board member), and the Controller authorize the Manager of Banking Services to make investment decisions.

In practice, the Manager of Banking Services conducts due diligence on banks where deposits may be made and receives market advice from experts in large firms regarding potential investments. The Manager of Banking Services consults with the Controller and Vice Chancellor prior to making decisions on any purchases of a large scale (e.g. $10 million). The Manager of Banking Services maintains a robust data base of all the investment instruments (about 200 different investments) and has the ability to run various reports on yield, duration, and placement.

The monthly reports to the board reflect the deposit status of cash broken down by the ten different banks and investment agencies that hold the funds. The conflict between this report and the policy arises because the board policy states:

"The Treasurer shall provide at least a quarterly investment report to OCC Board of Trustees that summarizes the security type, average maturity, portfolio yield, and other information necessary to ascertain whether investment activities during the reporting period have conformed to this Policy"

It is recommended that the reports to the board regarding investment be modified to comply with the Board policy.

There should be systems in place to continually monitor a bank's credit worthiness even after the investment is placed at the bank, because a bank's credit rating may deteriorate during the term of the CD which might prompt a sale prior to maturity.

The OCC board policy does outline the "Primary Objectives" of the investment program. These are summarized in order as Safety (credit risk), Diversification, Liquidity (term risk), and Market Rate of Return (interest risk). It is recommended that the analysis of the portfolio each quarter include a short narrative on how the structure of the portfolio is meeting these objectives.

The current board policy is not specific about measuring the performance against standard indicators for comparable pools. It is recommended that benchmark indicators be recommended by the Vice Chancellor to the Board, and that the quarterly reports indicate performance against those benchmark indicators.

OCC has considered altering their management of the investment portfolio and has gone as far as getting quotes from investment management firms. This option has not been selected because the fees were very high, and the scope of investments is tightly regulated by State law, thus narrowing the investment decisions.

At the same time, the core role of college employees is not to act as investment managers. One option for OCC to consider is the use of an independent "investment consultant" to work with the college investment team (the Manager of Banking Services and the Vice Chancellor, Treasurer and Controller) on a regular basis, (e.g., once a quarter) to review the portfolio and brief the team on market trends. The consultant could be paid on an hourly basis rather than paid as a % of the value of the pool. This approach would give the college one more level of information and review from a professional in the field who has no financial interests in the college investment pool, while at the same time allowing the college to continue to manage the investments in house on a day-to-day basis. The policies of Michigan State University: "Investment Policy, Section VII "Role of the Investment Consultant" provide a good example. In the case of MSU, their in-house investment department uses the services of an outside investment "consultant." The role of the investment consultant at MSU is defined in their policy :

"VII. Role of the Investment Consultant

The investment consultant:

1. Shall annually develop and communicate to the Finance Committee, through its meetings with the Investment Advisory Subcommittee, an appropriate strategy to meet the Board's long-term investment objectives for the Institutional Funds;

2. Shall usually meet with the Investment Advisory Subcommittee quarterly, but in no case less frequently than three times a year, and with the Finance Committee as needed;

3. Shall advise the Finance Committee, through its meetings with the Investment Advisory Subcommittee, regarding searches for investment managers and investment custodians;

4. Shall provide a monitoring and measurement program that will permit evaluation of the performance of the CIF portfolio, asset classes within the portfolio and investment managers in comparison with applicable investment market benchmarks and with other managers;

5. Shall provide a monitoring and measurement program that will permit evaluation of the performance of the Liquidity Reserve Pool and investment managers in comparison with applicable investment market benchmarks and with other managers;

6. Shall provide a monitoring and measurement program that will permit evaluation of the performance of the Liquidity Pool and investment managers in comparison with applicable investment market benchmarks and with other managers; and

7. Shall provide such other information pertaining to the Board's investment program as may reasonably be required and shall report immediately to the Board any major change in its confidence regarding the securities markets."

This type of arrangement would allow OCC to continue to manage the investments in-house but would bring in outside expertise to advise the OCC investment team.

Policy review

Several other Board policies were also analyzed including Wayne County Community College, Macomb Community College, Lone Star College, and Tarrant County College (see attached). These colleges were selected as benchmark colleges for the fiscal analysis section of the primary College Brain Trust report, so they were also used for comparative purposes here. In addition to these benchmark colleges, the investment policy of the American Association of Community Colleges was reviewed. While this policy is for a non-governmental agency, it has some interesting language on the establishment and investment objectives of a "Long Term Fund." This may be an approach for OCC to consider relative to their reserves.

The Lone Star policy, in its list of primary objectives of investment decisions, adds a 4th criteria . . . . "Public Trust." OCC should consider adding this language to their policy to highlight that element of investment decisions. Lone Star also specifies the Capability of Investment Officers (section III.C.2.13) and the Training of Investment Officers (section III.c.2.14). OCC should also consider adding similar language to their policy.

The OCC policy regarding diversification of the pool states:

" No more than 30% of any fund's available investment dollars shall be placed in commercial paper" (Division III 5) and " The total amount of funds invested in one financial institution does not exceed 25%" (Division III 7). This policy falls short in defining maximum investments in single instrument, for example 100% of the portfolio could be in invested in CD's and still be compliant with the existing policy. These parameters for diversification could be strengthened by incorporating the maximum and minimum amounts authorized to be invested in equities, fixed income, cash, and equivalents. Note how the AACC policy, p. 6, provides these guidelines.

In summary, first, OCC should consider using a consultant and developing an RFP with input from the auditors, or perhaps with the help of Michigan State University staff, who were very helpful in their discussions about the role of a consultant. Second, at the

minimum, the investment reports to the Board need to comply to existing Board policy with quarterly reports to include…" the security type, average maturity, portfolio yield, and other information necessary to ascertain whether investment activities during the reporting period have conformed to this Policy". Third, the board policy should require comparison to benchmark portfolios to help the Board assess performance.
Fourth, the policy should be strengthened by adding investment parameters similar to the AACC policy, which sets minimum and maximum allocations for investments.
Finally, OCC should consider adding language similar to that in the Lone Star Community College policy regarding minimum qualifications and training standards for the Investment Officer to board policy.

Attachments:

10. *Michigan State University Investment Policy 01-07-01*
11. *Wayne County Community College District Policy 3.5.10 Cash and Investment*
12. *Macomb Community College Investment Policy 389.142*
13. *Lone Star College Cash Management III.C*
14. *Tarrant County College Investment Policy 220502*
15. *American Association of Community Colleges Investment Policy Statement*

Task Four: Facilities/construction management practice

"OCC is experiencing short term problems related to the process of identifying projects and prioritization; The outcome of this phase would be to clarify the construction project list, the funding, the timeline and the process for approving any new projects to be started in the next two years. The second phase would be to recommend a process for considering alternatives for construction management, including a timeline to have a decision in place by June 2014."

Observations:

The management of facilities maintenance, renovation and new construction is primarily outsourced to Auch, which is described as a "CM (Construction Manager) At Risk" model. However, this model more closely parallels what is known in the industry as a "Program Manager/Construction Manager (PM/CM) model. It does not appear that Auch is "at risk" for any of the contracts they supervise, as the college holds the contracts. The college does not have skilled trades positions on campus, so almost all maintenance work requiring skilled trades is outsourced, primarily through Auch. If the maintenance projects are small they are handled at the college level. If they exceed $50,000 (which then requires Board approval), or if the projects require either an architect or engineer, they are handed off to Auch. Auch prepares project scope and budget estimates, and submits the package to the Director Physical Facilities for submission to the Board for approval. Once the project budget is approved by the Board, Auch switches from their role as program manager to that of a construction manager and handles the bidding process, construction management throughout the project, and payment to the contractors. Auch then submits a summary bill for reimbursement to the college.

Discussion:

Facility approval process: Each campus has a campus facilities committee that identifies projects needed at that campus. These projects include new construction, major renovation, and deferred maintenance. The prioritized projects are then submitted to the College Facilities Committee comprised of the four Campus Presidents, the Vice Chancellor, Administrative Services, and the Director, Physical Facilities. This committee determines which projects should be recommended to the Chancellor. Committee members have expressed some concern that the project approval process is not based on pre-established criteria. This College Committee process could be strengthened in two ways:

1. Planning Cycle: It is recommended that this process follow an annual planning cycle with the overall budget for projects set at the beginning of the

cycle. This also gives the campus and the construction management staff the ability to plan for construction and ensuing disruptions. The projects approved should all be guided by the Academic Master Plan and program review. The process of setting the budget and project approval needs to be synchronized so projects can be prioritized against a set budget. For example, the budget for 2012-13 would be based on funds available at the end of the 2011-12 fiscal year, which are not normally known until the books are closed in August. Once the books are closed and the capital budget is established, the committee can meet in the Fall to approve the projects. This process would anticipate an annual approval of projects, not a rolling approval of projects.

2. Criteria: There will be two types of projects flowing into the College Facilities Committee which will require consideration for the allocation of funds.
    a. Maintenance and Major repair projects: A contract has been awarded to ISES Corporation to conduct a "Facilities Condition Assessment" (FCA) of all college facilities and to develop a schedule of maintenance. This project will be completed by January 2013. This analysis will form the basis for a long range capital outlay program, but also will determine which projects will be submitted to the College Facilities Committee for funding in the next year.
    b. New Building and Major Remodeling projects: The recommendations for new buildings or major remodeling should be driven by the Academic Master Plan through the Facilities Master Plan. Once the costs of projects are determined for the high priority projects, they can be submitted to the College Facilities Committee for final prioritization.

It is recommended that for each of the projects being submitted to the College Facilities Committee, an analytical grid be constructed which would weigh the importance to the instructional program, safety implications, initial and ongoing operational costs, and potential additional costs if projects are delayed, to name a few of the criteria which could be used.

(Note: The College Facilities Committee structure has to be reviewed in light of the new organizational changes. Specifically, the role of the college presidents and the Vice Chancellor, Academic and Student Services, has to be clarified. In the past the College Presidents submitted projects to the committee and served on the committee. With the instructional programs now reporting directly to the vice chancellor, the role of the presidents to submit and serve on the committee needs to be clarified. Whatever the composition of the committee, the final list of recommended projects should be reviewed by the Cabinet, prior to Chancellor approval/disapproval.)

Construction Management: Auch has provided program management and construction management services to the college for many years. The college wished to go out to bid for these services in 2012, so a request for proposal process was initiated in 2012, but the recommendation to the Board was withdrawn and the contract with Auch was renewed to June 2014. It is common “best practice” to go out to bid on construction management services, usually on a five year basis (similar to audit services). The college should initiate the RFP process in October 2013 to allow sufficient time to develop the RFP, solicit proposals, and make recommendations. Auch would be eligible to submit a proposal. Colleges do make changes in their external project management teams for a variety of reasons. Even though complications do arise when a project is handed off to a new firm, it is not uncommon to change construction management firms and to make plans for smooth transitions to new project managers.

While it would be possible to shift from a program/construction management contract and assume all of those duties in house, as is the practice in many colleges, OCC does not currently have the infrastructure capability to take on program or construction management in house. If that were a consideration, the college would have to hire additional staff in purchasing, accounting, and project management to handle this workload. That degree of change seems unlikely in the current environment. Having a program manager/construction manager contract does allow the college flexibility in staffing to handle the peaks and valleys of construction projects and to move quickly if the performance of the project manager is not acceptable. For many colleges that have passed large capital outlay bonds and are embarking on a 10 year construction program, it does become more attractive to hire professional staff in-house for the duration of those types of construction programs. In these cases, colleges handle all the purchasing and accounting duties but may still contract out for “project” management. The project management service would be contracted to oversee the construction projects, but construction and renovation project contracts would be awarded to a general contractor. The staff that the college has to hire for these services is most often charged as overhead to the construction budgets, not expensed in the general fund. The disadvantage of this in the current OCC environment is that there are no major projects coming on line, so the risk of hiring in-house staff may not be cost effective for a relatively small construction/renovation program.

Based on the review of options and the interests of OCC, it is recommended that the college remain with the current structure of program manager/construction manager, but proceed with the solicitation of firms to respond to their RFP to be awarded in April 2014 effective for June 2014.

Sustainability:
While the issue of sustainability was not in the original scope of work, it did come up in conversations with the campus presidents. Sustainability planning ranges from recycling, native landscaping, and energy usage, to voluntary compliance with LEED certified

buildings. Some colleges have fully developed sustainability plans with goals and measurable objectives. This type of plan not only provides guidance in the college decision making processes but also serves to acknowledge the role of the college as a leader in sustainability issues. Money saved from energy reductions can be directed to other critical student needs. Many colleges promote their leadership on energy related issues to the community, a promotion that has served them well over time, especially for colleges who might be asking the public for additional tax/bond support.
The one area of sustainability leadership directly related to the construction process is the voluntary compliance with LEED building standards. Below is a quote from a recent article in the *San Jose Mercury News* (10/1/12) :

"*Energy efficiency is the new mantra of building industry"*

The article states:
"Twelve years ago, the US Green Building Council launched a rating system called LEED, or Leadership in Energy and Environmental Design, hoping that architects, engineers, designers and real estate firms would improve energy efficiency and increase the use of recycled materials and nontoxic paint in their projects to win LEED certified recognition. Now LEED has grown into a powerful brand and global phenomenon. There are 14,044 LEED certified commercial projects, covering more than 2 billion square feet in 140 countries.
" Improving the environmental performances of our buildings not only helps us reduce waste, saves energy and water and improves indoor air quality, but also positively impacts the health and productivity of our employees around the world." David Radcliffe, vice president real estate and workplace services at Google."

While OCC does not have any major buildings on the drawing board, it is recommended that the college adopt LEED standards for new buildings and incorporate as much of the LEED standards as possible into renovation projects. A wealth of information is available at the US Green Building Council's website usgbc.org.

Task Five: Review accounts receivable

Task definition:
"Determine which categories of Accounts Receivable need to have a different action plan for collection; identify options for collection and process to maintain prudent levels of A/R."

Observations:

The concern arising from student receivables is the amount of "bad debt" that is written off each year as "uncollectable." This write off was about $2.5 million in 2011 and about $1.5 million in 2012. All community colleges are experiencing this problem, which has been magnified in recent years as Pell grants were increased to students for financial aid.

Discussion:

The cycle of student registration and payment works like this: when a student registers for classes they must pay the fees for the classes. Once they have qualified for financial aid (Pell grants) the financial aid money is used to pay back the college tuition, but the remainder of the Pell grant must be refunded to the student if it is not needed for tuition. Because community college tuition rates are low, and because Pell grant awards have increased dramatically, this "refund" to students could amount to $2-3,000 per student. Federal guidelines require colleges to refund this money within a stipulated timeframe as students need the money for living and other expenses.
However, if the college refunds the money and the student does not show up for classes, the college must pay back the Federal government putting the college in the unfortunate situation of trying to collect that money from the student, which is difficult, even with the best collection processes and agencies.
In recognition of this problem, OCC initiated a process effective January 2011 to seek the voluntary cooperation of faculty to report grades at the 20% completion point of the semester so the college could determine if a student has attended classes prior to the federal deadline for making a refund to the student. If the instructor reports that the student has not attended classes, the college is not obligated to give the refund, thus offsetting the money the college has already paid the Federal government. This program will work effectively to reduce the refunds (and the likely bad debt) to students who are not eligible. The college should be commended for taking positive steps to solve this problem. The team of instruction, student services and finance needs to brainstorm ways to get more faculty involvement in this process so the money wasted in the bad debt write offs can be put to more effective uses serving students.

The effort to reduce this bad debt write off will only succeed with the understanding and cooperation of faculty, instructional support staff, student services staff and financial staff. Constant monitoring and vigilance will be required to develop additional solutions.

Task Six: Course Material Fees

"Develop Board policy and Administrative Procedures regarding parameters for fees, uses of fees, approval process and timing to establish fees. Recommend policy to set parameters for instructional fees; process for approval; timing of approval and uses of fees; Early November"

Observations:

The college has a board policy that outlines the process for approval of course material fees. The policy is well structured but needs to be modified to state the intent of the fees and to reflect the new organizational structure of the deans and presidents. Additionally, not all parts of the policy are being followed in the current practices.

Discussion:

The board policy on course material fees is in Division IV.B. which states:

"Course fees will be established as follows:

1. The existing course fees structure will be maintained.
2. All course fees will be reviewed for continuation or change as part of the annual budget process.
3. Like courses must have the same fee at all campuses.
4. Like courses that are taught in a different manner on various campuses where some may not require a fee need to change to justify a fee, or all like courses need to eliminate the fee.
5. The approval process for campus specific fees is: Dean to President
6. The approval process for college wide fees is: Campus Dean reviews recommendations(s) made at the College Discipline meeting each Fall and recommends fees to Educational Services Council, who recommends to Chancellor's Council by January 31st.
7. Campus Directors of Administrative Services need to identify shortfall or surplus of funds collected by assessment of course fees to help determine if adjustment is necessary."

The board policy needs to be modified to reflect the new organizational structure of the college. The policy should set a date for approval or disapproval by the Chancellor's Cabinet, and should specify that approval is for fees effective in the next academic year.

Revisions to the proposed policy are reflected in the attachment, but if all changes were accepted, the new policy would read as follows:

Policy 4.4 Student Services (Proposed revision)

Division IV. B.

Purpose:

The purpose of course fees is to cover extraordinary costs of supplies for courses. The extraordinary costs of fees should be documented and assessed on a per student basis. The purpose of these fees is expressly for supplies that cannot be covered from General Fund allocations and should not be used to cover salaries of full time staff, part time staff, tutors, to be used as a substitute for tuition.

"Course fees will be established as follows:

1. *The existing course fees structure will be maintained.*
2. *All course fees will be reviewed for continuation or change as part of the annual budget process. Each August, Campus Directors of Administrative Services need to identify the shortfall or surplus of funds collected in the prior year to determine if adjustments to the level of fee are necessary. Recommendations on adjustments to course fees based on surpluses or shortfalls will be incorporated into the approval timelines and processes outlined below.*
3. *Like courses must have the same fee at all campuses.*
4. *Like courses that are taught in a different manner on various campuses where some may not require a fee need to change to justify a fee, or all like courses need to eliminate the fee.*
5. *The approval process for campus specific fees is: Academic Dean to Vice Chancellor, Academic and Student Affairs*
6. *The approval process for college wide fees is that the Academic Dean reviews recommendations(s) made at the College Discipline meeting each fall and recommends fees to the Vice Chancellor, Academic and Student Affairs who recommends to Chancellor's Cabinet by January 31st. If the Chancellor approves the fees, they will be effective for the following academic year.*

Attachment

16. BP 4.4 Course fees (proposed modifications)

Task Seven: Bonds

"Outline process of planning which will lead to facility master plan; outline process for identifying and prioritizing new capital outlay, remodeling projects and infrastructure projects;
Recommend how to initiate the Facilities Master Plan (FMP), and timing of completion of FMP. Early December"

Observations:

The college does not have a "Facilities Master Plan" in the traditional sense. It has components of various capital outlay plans as discussed earlier, but there is no comprehensive Facilities Master Plan. The lack of this plan makes it difficult to identify major projects, agree on priorities for projects, and identify options for funding projects. Discussion of a potential bond program cannot occur until these planning components are in place.

Discussion:

The normal cycle for integrated planning would be as follows:

The Strategic Plan is complete and being implemented and updated at regular intervals.

The Academic Master Plan is complete and being implemented and updated at regular intervals.

Components of the Facilities Master Plan are then tied into the Strategic Plan and the Academic Master Plan. These components would include:

Anticipated new building and major remodeling projects
Anticipated infrastructure projects (such as roofs, utility systems etc.)
Anticipated technology expansion, upgrades and computer replacement

Once the Facilities Master Plan is completed, prioritized with cost estimates, and set against a timeline, the college can begin to identify funding mechanisms, which may include internal financing from the Plant Fund, state financing, corporate partnerships, naming rights to buildings or rooms and so on. Anticipating that there could be a shortfall of these funding alternatives to meet the needs of the college would then allow the college to consider bonds as an alternative to fill the funding gap.

There will be much more discussion on "integrated planning" as part of the master contract with the College Brain Trust (CBT). Several members of the team are working on this analysis and will provide recommendations on how to integrate the Facilities Master Plan with the other major planning initiatives of the college.

One way to ensure that a Facilities Master Plan is updated annually is to incorporate that into Board Policy. One example of this approach is used at Lansing Community College, which has a specific board policy that outlines the timing, purpose, and responsibility of staff to annually prepare a facilities master plan. A copy of that policy is attached.

It is recommended that OCC develop a RFP for architectural firms to guide the college in the development of a Facilities Master Plan. Anticipating that the College Academic Master Plan will be completed in early Spring 2013, the college should start the development of the RFP for a facilities master plan now so a firm can be selected, and the task can begin in Spring 2013. This facilities master plan will identify the college needs for major remodeling, new facilities, and infrastructure improvements for the next 5-10 years. It is from this plan that new building, major remodeling and infrastructure improvement projects will be identified and prioritized. This is a critical planning mechanism for OCC to establish as part of their integrated planning process.

Attachment

17. Lansing Community College Facilities Master Plan Policy