Fiscal Sustainability at Lane

The purpose of this paper is threefold:

- to answer the question of whether the college is facing a short or long term budget problem after reviewing five-year projections
- lay out some of the challenges that the college faces as we make reductions to balance the budget
- propose some ideas that might contribute to long term sustainability.

Projections show that at the Governor's budget allocation of $483 million the college has a long term problem. If we make the following assumptions we will still continue to have an unbalanced budget:

- continue to grow at a rate that maintains our relative position to the other community colleges
- increase tuition using the Higher Education Price Index
- Governor follows through on his pledge to increase state funding at 10% in the next biennium and 10% in the following biennium
- increase employee compensation – steps and 2% adjustment

Assuming that we reduce the budget $4.7 million recurring for 2008, we will continue to be out of balance by approximately $3 million each year. Obviously, this is not sustainable. If we manage to achieve an allocation of $529 million, the State Board of Education request, the projection looks slightly better but it does not completely solve the problem. The projections suggest that our current way of doing business must radically change in order to sustain the college over time and be able to make appropriate investments to serve the needs of the community.

Dilemmas in balancing the budget

Several ideas have been proposed to balance the budget. These ideas may be part of the solution but one must keep in mind the words of Mencken:

"For every complex problem there is a solution that is clear, simple and wrong."

These ideas, while reasonable on their face, require a deeper level of scrutiny to determine if they really obtain the desired result. You have heard most of these before but I thought it would be helpful to catalog them. I am not suggesting that we reject or adopt these ideas but that we must understand the consequences of implementing them.

These approaches have come from a number of people internal and external to the college. Some of the ideas face enormous barriers to implement even if we decided they were worth doing. It is not my intention to recommend any of these approaches at this time but it is important that I lay out the dilemmas so that the board and the college community understand them. This is not intended to be a comprehensive list of the issues associated with these ideas.

Solution: Start at the top of the mission and fund as far as we can, eliminating whatever can't be funded.

It has been suggested that we use the prioritized mission as a guide in making budget reductions. This has merit from the perspective that we have decided what is most important to the college and the community and therefore we should do everything we can to protect those offerings. It allows planning to drive the budget. The challenge of this strategy is twofold. Community and cultural services is the lowest priority of our mission. We spend less than 2% on these services with the bulk going to KLCC. KLCC has tremendous reach and community support. Elimination of funding would require us to change our relationship with KLCC (read creation of a 501c3) in order for the station to survive. Similarly, our second lowest priority is the credit free lifelong learning program. While these may seem less important in the context of preparing students for work or university, from a financial perspective, it would be folly to eliminate these courses because they are a big part of our financial picture. These courses are lower cost and the revenue supports the higher cost of career and technical programs.

Solution: Eliminate the higher cost programs and invest in low cost programs to maintain enrollment.

As we have tried to grow enrollment in the last five years we have focused on lower cost enrollment that contributes excess revenue to the general fund. Elimination of high cost programs may make some sense if we were making decisions only from a financial perspective. Certainly, high cost programs should be reviewed to assure that they are still meeting a compelling community need. That would lead us to consideration of our two most expensive programs - Nursing and Dental Hygiene. When we look at the labor market needs, these programs are in high demand and are high wage. They offer a pathway for students to a family wage job with an Associates Degree and they meet a compelling community and societal need. Eliminating these programs would demonstrate that we are unable to meet the workforce needs of our community.

Solution: Delay investing in major maintenance and capital improvement.

The thinking here is that we should not be investing in these if we are simultaneously laying off faculty or staff. Clearly, there is a balance but delay in major maintenance can cost the college a lot more in the long run and create health and safety liabilities. Also, these are usually one time investments whereas employee costs are recurring costs.

Solution: Reduce instructional programs since most of the lay offs have directly affected classified staff and management.

Lane spends more on instruction and instructional support than the average of the other Oregon colleges. We spend less on College Support (operations, president's office, HR, marketing etc.) than the average. Making reductions in instruction is challenging because, while we may eliminate or reduce programs, we must be careful not to lose overall enrollment as that affects our state reimbursement. Reducing enrollment is the beginning of a "downward spiral" that does not improve our financial position over time. Decreasing instructional expenses must take a form other than a net decrease in enrollment. Obvious options are increases in part time faculty, increases in productivity, and an increase in lower cost enrollment. Each of these options has its own set of challenges as shown below.

Solution: Increase the number of part time faculty.

It has been suggested that we increase the number of part time faculty. Lane has the best full time:part time ratio of Oregon colleges. We are fortunate at Lane to have a cadre of excellent part time faculty, many of whom have a long term commitment to the college. In addition, our salaries for part time faculty are 20% more than the closest next college in Oregon. (2005 data) We also provide the largest subsidy for health insurance and a better level of benefits among the three colleges in Oregon that provide benefits for part time faculty.

We have 41 more full-time faculty than Chemeketa , the college closest to Lane in enrollment. The downside, of course, is that we cannot expect part time faculty to have the same commitment to the college because often they are working at several colleges. We potentially lose engagement in curriculum development, availability to students, and participation in student success.

Increase Productivity and Efficiency

A recent research study shows that Lane's faculty to student ratio is one of the best. (Appendix A) We should be proud of that. However, we must consider an appropriate balance between the personal attention that small class size affords and the fiscal challenges we face. At what point does an increase in class size compromise quality? If we do not increase the ratio and must reduce offerings for students are they being well served? This must be considered as part of the instructional redesign initiative.
Similarly, administrative processes require streamlining so that reductions in human resources do not simply require the same work, done in the same way, with fewer people.

Solution: Reduce employee compensation (salary and benefit) increases – e.g. eliminate the cost of living adjustment for next year.

Many people compare the college with the private sector and maintain that private sector employees have already had to trade benefit packages for salary increases, pensions are of less value than for college employees and that public employees must be willing to make the same sacrifices. Lane has completed market studies for all employee groups and it appears that our faculty and staff salaries are comparable to our sister institutions and local public employers. The cost of our benefit package does look higher than other community colleges in Oregon and we will explore that further. Reducing compensation increases may make the college less competitive in attracting and retaining the very best faculty and staff. On the other hand, retrenching faculty and staff to fund the salary increases for those that remain impacts the level of enrollment and service and increases the workload.

Solution: Reduce the number of managers (higher cost staff).

While we will propose an interim executive structure for next year with the purpose of saving money, it should be recognized that between 1985 and 2006, the management staff have been reduced 29% (source = March 2007 Benchmark: Change in Employee Headcount) (take out three OSBDCN folks). When compared with Chemeketa Community College, which is about the same size as Lane, we have 52 managers to Chemeketa's 88 (CCWD Profile). There are areas in the college where the ratio of faculty and staff to managers is 49:1.

Cut everything that does not generate revenue i.e. non teaching personnel.

It is true that students come to Lane to take classes. They pay for the classes and that generates revenue for the college. This argues for protecting as many classroom teachers as possible. Certainly, this is the strategy we have used in past years as we have cut operations and support staff. However, all the parts of the college are part of the same system. Students can be successful without tapping into some of the support services but they still need to register, receive financial aid, sit in a clean classroom. In addition, many of our students need specialized services like Disability Services, Tutoring, Counseling and Advising to be successful.

Solution: Outsource operational functions.

It has been suggested that we outsource operations such as custodial, food service and public safety. It remains to be seen how much the savings would be if we were to follow this path. Obviously, we would have to bargain the impact of this and there is a huge political and human cost to this option. Savings may be realized but it would be at the expense of our employees who likely would have lower salaries and perhaps, no benefits.

Solution: The college can "grow its way out of the problem."

Relying solely on growth will not address the long term budget problem. For this to happen the state allocation for community colleges must increase to keep up with the rate of increase in costs at Lane. However, if colleges grow without the size of the state allocation increasing, we will "devalue" the per FTE allocation which will put additional stresses on the system. Therefore, there needs to be a three pronged approach to address the budget problem:

1. Grow courses in strategic areas that meet community needs and are net revenue generators
2. Increase productivity
3. Curtail costs

This may be a partial solution but it is not without its challenges. In order for growth to help we must have the following requirements in place:

- demand for the additional sections
- sections must be tuition generating
- they must be net income generating (usually taught by part time faculty)
- care must be taken that students are not simply spread among classes making the enrollment less cost effective.
- the growth rate of our sister colleges must be less than our growth

See Appendix B for more detail.

None of these is a complete solution and all have downsides. While they may be considered as we determine the budget for 2008 we must also think beyond these types of incremental proposals if we want to make the college sustainable over time.

We need to come to terms with the fact that we have a long term problem. Unless we take steps this year and next we will be faced with a cycle of cutting every year to fund the annual increases in salary and benefits. Continual budget reductions do not serve the community, the college, our students or our staff well so we must do more.

The Governor's budget includes $483 million, a 12.7% increase for Oregon's community colleges. However, this is only 4% more than the 2001 legislative allocation. If the 2001 allocation was rolled up to include inflation the number should be $563 million. Interestingly, this is the amount Lane would need for Lane's allocation so that we could balance our budget without reductions. The State Board of Education request was for $529 million and this is the amount that OCCA is lobbying as the floor for community colleges. The governor has pledged to increase education budgets by at least 10% this biennium and next. This begins to build the base funding for the future but it is unrealistic to think that we will receive a 10% increase year after year. We must continue to make our case for increased state funding.

The average annual increase in our revenue between FY 2001and 2006 has been 3.7% Over the same time, the average annual increase in our expenses has been 5.2%. This is not sustainable. Therefore in the future, once we stabilize our budget we must tie increases in salary and benefits to the average increase in revenue – property tax, state support and tuition, leaving some left over for investment in new programs, services and infrastructure.

We must also implement initiatives to generate revenue for the college. Some of these are already underway but they need to be brought to scale.

Expansion of existing programs to meet community needs.

Employee Training

Lane has not been as aggressive as other colleges in serving the incumbent work force with customized training. This must change. Lane must be seen as the preferred provider of employee training. Over the next two years we should set the goal to achieve an additional 100 FTE in employee training each year. This would generate additional state revenue, tuition and fees that will allow for reinvestment and overhead.

K-12

Over the last two years we have increased our efforts to attract high school students. College Now has increased an average of 52% over the last two years and RTEC is growing every year. We must continue to grow this segment of our enrollment by increasing College Now enrollment by 10% and RTEC by 10% each year for the next two years. College Now enrollment benefits us as far as state reimbursement though we do not receive tuition revenue. Through our agreement regarding SB 300 we do receive tuition for RTEC as well as state reimbursement.

We must translate these high school students into credit students by increasing the percentage of high school students from Lane County that matriculate at Lane. Currently we enroll 18% of high school graduates. In the most recent National Community College Benchmarking Project data, for "High School Graduates Enrolling at Institution" the median enrollment for high school students was 21%; Lane was between the 25^{th} percentile and median with our fall '05 18%). To achieve the NCCBP median requires us to increase the number of recent high school grads by 82.

Dental Hygiene

Receipt of the Department of Labor grant provides the opportunity to develop high end, multimedia interactive on line delivery of the didactic portion of the Dental Hygiene program. This has the potential to expand access beyond our statewide partners to anywhere in the world. It will take at least a year to develop the curriculum. In the meantime, we should set targets for expanding the program.

Productivity

Productivity and efficiency have been discussed above. As the instructional redesign and work process redesign efforts unfold we must be assessing for increases in productivity.

Growing our way out

Growing our way out must be primarily based on additional **tuition** revenue as the variables in the state distribution formula may or may not have a positive impact on our allocation. If the requirements mentioned in the prior section are met, the most likely areas for additional courses would be:

- General Education areas that have a net income greater than $1000 per FTE: Six divisions fall in this category:
  - Language, Literature and Communications ($1,156 per FTE)
  - Computer Information Technology ($1,297 per FTE) and Business ($1,800 per FTE)
  - Health and Physical Education ($1,374 per FTE)
  - Mathematics ($2,109 per FTE)
  - Social Science ($2,154 per FTE)
  - Counseling ($2,534 per FTE)

In order to increase tuition revenue by $1 million we would need to offer 150 additional sections, taught by part time faculty with a minimum number of students. More research would need to be done to verify that demand exists for these courses.

International Education

For fall term 2005, we had 129 international students enrolled in credit courses (NOTE: for fall 1998, there were 379 international students enrolled in credit sections) Now that the federal government, spurred on by the Lincoln Commission, has decided to encourage students from other countries to come to the United States we should do our best to attract some of these students to Lane. Increasing the number of full-time international students enrolled in credit classes by 100 would result in an increase in tuition and required fees of over $900,000 ($934,700, based on tuition rate for 2005-06) This would more than pay for the costs associated with an increase in international students, support the domestic programs and would also have the added benefit of increasing the diversity of our students by internationalizing our college.

The Entrepreneurial College – using college assets to generate revenue

In order to generate the kind of revenue we need to continue to maintain our offerings and expand into new directions when the community requires it we must think even bigger and in a more entrepreneurial way. Of course, we want to stay true to our vision and mission but we must identify our assets and determine how we might use these assets to create revenue that will support the ongoing needs of the college. Assets such as: expertise in curriculum design and delivery; land; strengths such as programs in diversity, sustainability, wellness.

Examples:

International Education

In addition to attracting students from overseas as noted above we can capitalize on our curriculum design and delivery and certification expertise by providing it to foreign partners who want to meet American standards of education. A good example of this is our exploration involving Egypt, Abu Dhabi and Dubai. They are in great need of career training immediately and are willing to purchase our expertise to further their own goals. For our part, the revenue would help sustain our college as well as provide seed money for others international efforts.

Institutes

We have invested in many initiatives such as diversity, sustainability, wellness, CML, Culinary, Health Care, and Energy Management that benefit the college and our own employees. We could build on these Centers of Excellence to expand enrollment and generate revenue. Many organizations are trying to implement similar efforts. We can assist these organizations by setting up training programs to share our knowledge and expertise and at the same time generate revenue.

Land

The college owns several parcels of land. We should explore how we can put these assets to use to generate an ongoing revenue stream that will subsidize our operations. For example, we are planning to totally refurbish the Downtown Center if we pass a local facilities bond in 2008. Conceivably, we could partner with the city or a developer to not only meet our own needs for instructional space but contribute to some of the city's goals for downtown development by building housing above the space we require. Similarly, we have land adjacent to the college on which we could build facilities that would provide laboratories for our students e.g. long term care facilities where our health care students could gain experience or housing for international students. As part of the next bond we could invite partners who serve our students in other ways to locate in custom built facilities on campus for which we have long term leases that provide rental income from these partners.

At this point these are just "out of the box" ideas and we would have to determine their feasibility. But if it is really essential to decrease our reliance on public funds as I believe it is, then, we must consider multiple ideas to create revenue.

In summary, there are no easy solutions to our budget problems - but there are solutions. We will need to work together to make the best possible decisions that contribute to the long term sustainability of the college.

Appendix A

Comparisons of Student Credit FTE to Full-Time Faculty Counts Using National and State Data Sources

For a National Perspective
Measure: Ratio of calculated credit student FTE to FT Faculty headcount
Data Source: Integrated Postsecondary Education Data System (IPEDS)

Institutions of Interest: Colleges used in PCC Management Compensation Study and additional (multi-campus/college districts) used in prior "peer" analyses

Data Considerations:

- Ratio is NOT comparable to prior trended PCC data
- FTE formula differs from PCC (state of Oregon) methodology
- FT Faculty numbers may (or may not) include employees in non-teaching faculty positions
- Most institutions are semester rather than term based

Findings and Interpretation: *(Using the calculated ratio for ranking purposes only)*

PCC ranks 7th of the 28 colleges/districts examined.

Six of the institutions have a greater proportion of FT Faculty (relative to credit student FTE) than does PCC.

For a State Perspective
Measure: Ratio of OCCURS lower division transfer, technical professional and developmental education student FTE to FT Faculty headcount

Data Considerations:

- No large multi-campus comparison
- FT Faculty may/may not include employees in non-teaching faculty positions

Findings and Interpretation: *(Using the calculated ratio for ranking purposes only)*

PCC ranks 4th of the 5 community colleges in Oregon examined.

Three of the institutions have a greater proportion of FT Faculty (relative to credit student FTE) than does PCC.

PCC Office of Institutional Effectiveness, Jan 2007, FTFacultyhdct&FTE_IPEDSSummary.doc

Appendix B

Growing our Way out

The dynamic of increasing the revenue through growth:

When Lane grows its enrollment then:

Revenues can be impacted in the following way:

- Increase in tuition if the growth is primarily in credit instruction.
- Increase in state funding because Lane has grown faster than the other colleges and therefore has a larger share of the "pie", the Community College Support Fund (CCSF).
- Increase in state funding because the pie has grown although Lane's proportion remains the same.

Costs can be impacted in the following ways:

- Cost of instruction increases because the growth is in areas that are high cost (example: nursing, dental hygiene,…..)
- Cost of support services increases to keep up with the increase in student enrollment and the demand for more services.

Other factors to consider:

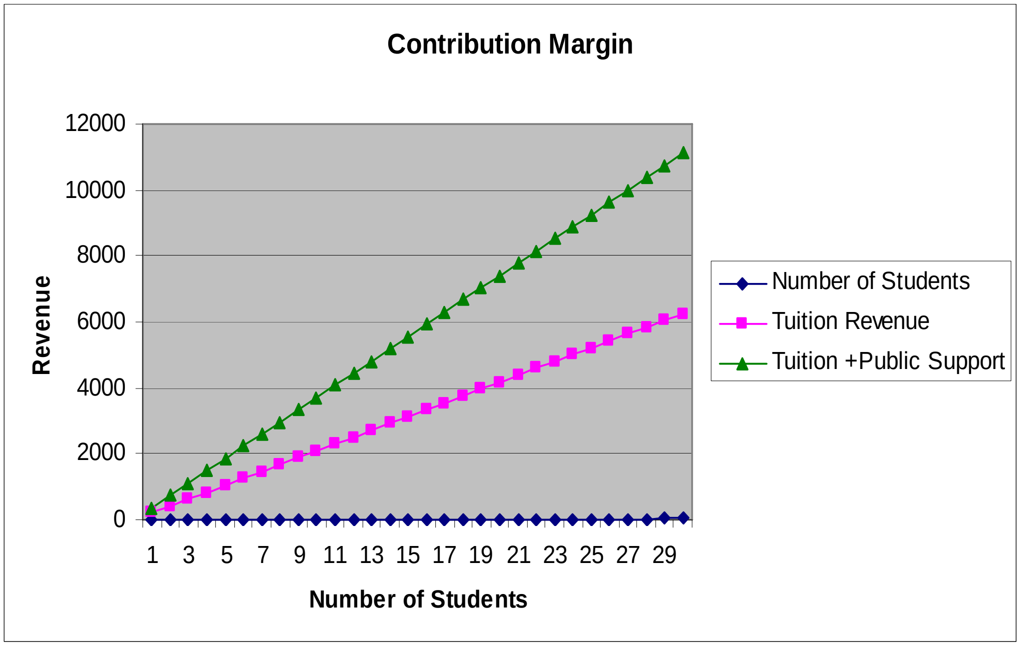
- There is a demand in the community to be met by Lane's offerings.
- Is the demand in areas where the revenue generated exceeds the costs?

Understanding the state allocation:

State resources are allocated on the basis of our share of total enrollment. If Lane growth exceeds the growth of other community colleges we receive a larger share. Lane may experience growth but still not realize additional resources if growth is less than or only equal to that elsewhere in the state. A good example is the current year where we received nearly $2 million less in state support than last year. This year's allocation is based on years where Lane enrollment decreased or was exceeded by the other schools yielding a lower proportion of total public resources. Growth is good but not a guarantee that revenue will increase.

Understanding the costs and revenues for instruction at the college level:

There are three variables that affect cost and revenue from any given class. On the cost side the significant variable is whether the instruction is provided by full time faculty or part time faculty. The cost of instruction by part time faculty for the same workload is half of the cost for full time faculty. On the revenue side the variables are tuition and the value of increased state support that will be provided as a result of the additional contact hours. Both of these vary directly with the number of students in a class. State support is actually paid over the following three years while tuition benefits the current year. For comparison purposes we are illustrating the revenue as though it were received at once. The following graph illustrates the relationship of both tuition and public support to the number of students in a class section.



Economic Analysis at the department level:
The unit planning data elements include departmental costs and revenues. These data were reviewed to understand whether growing certain areas will help the college's fiscal situation more than others. The attempt is to answer three questions:

1. how departments compare on their cost structures
2. how departments compare on their revenue streams
3. how departments compare when costs and revenues are considered together.

However, it should be noted that the economic indicator for strategic growth should follow the primary purpose of meeting community and student needs. Therefore, after identifying those areas of needs, then we could use the fiscal lens of costs and revenues to be economically prudent in our decisions.

Methodology:
a) Direct Cost-per-FTE (from the Unit Planning Data Elements - the Cost per FTE Report) with
b) Revenue-per-FTE (one component of Revenue = Tuition revenue; the 2nd component of revenue = Public Resources { Public Resources does not include local property tax revenue});
c) last column in the worksheet: Net income:{revenue-per-FTE} minus {direct cost-per-FTE}

Analysis:
The difference between the revenue per FTE and cost per FTE can be categorized in the following ways:

- General Education areas that have a net income greater than $1000 per FTE:
  Six divisions fall in this category:
  - Language, Literature and Communications ($1,156 per FTE)
  - Computer Information Technology ($1,297 per FTE) and Business ($1,800 per FTE)
  - Health and Physical Education ($1,374 per FTE)
  - Mathematics ($2,109 per FTE)
  - Social Science ($2,154 per FTE)
  - Counseling ($2,534 per FTE)

- Areas that have a net positive income less than $1000 per FTE:
  Six divisions fall in this category:
  - Arts: Art and Applied Design ($505 per FTE) and Music, Dance and Theatre Arts ($52 per FTE)
  - Culinary Arts and Hospitality ($133 per FTE)
  - Adult, Basic and secondary Education ($219 per FTE)
  - Cooperative Education ($272 per FTE)
  - Continuing Education ($383 per FTE)
  - Science ($490 per FTE)
- Areas that have a net negative income:
  Seven divisions fall in this category:
  - Academic Learning Skills (-$933 per FTE)
  - Advanced Technology (-$1,189 per FTE)
  - Family and health Careers (-$1,282 per FTE)
  - Business Development Center (-$2093per FTE)

Comparisons of Student Credit FTE to Full-Time Faculty Counts using National and State Data Sources

Integrated Postsecondary Education Data System (IPEDS)				Oregon Community College Unit Record System (OCCURS)	
Institution	**Calculated Credit FTE**	**Fall 2005 FT Faculty**	**Ratio** *(for ranking purposes only)*	**LDC, Prof Tech & Dev Ed** *(combined)* **FTE**	**Ratio** *(using OCCURS FTE and IPEDS FT Faculty)*
City College of San Francisco	16,365	750	21.8		
Lane Community College	6,410	247	26.0	9,855	39.9
Mt Hood Community College	4,776	155	30.8	7,897	51.0
Houston Community College System	26,341	814	32.4		
Clackamas Community College	5,221	158	33.0	7,346	46.5
Peralta Colleges	7,309	218	33.5		
Portland Community College	**14,629**	**407**	**35.9**	**22,141**	**54.4**
Austin Community College	16,493	445	37.1		
Tulsa Community College	10,887	284	38.3		
San Jacinto College District	15,134	386	39.2		
Metropolitan Community College	10,975	278	39.5		
Chemeketa Community College	7,440	188	39.6	10,626	56.5
Saint Louis Community College-District	17,744	440	40.3		
Seattle Community College-District	12,626	309	40.9		
Tarrant County College District	23,184	519	44.7		
Cuyahoga Community College District	16,705	373	44.8		
Florida Community College-Jacksonville	17,600	375	46.9		
Macomb Community College	10,932	229	47.7		
Salt Lake Community College	16,701	347	48.1		
Ventura County Community College	19,745	408	48.4		
Maricopa Community College District	65,001	1,323	49.1		
Dallas County Community College	39,420	736	53.6		
Pima Community College	19,418	318	61.1		
Hillsborough Community College	16,157	252	64.1		
Oakland Community College	17,801	275	64.7		
Valencia Community College	20,727	298	69.6		
Broward Community College	22,540	323	69.8		
Riverside Community College	29,341	365	80.4		

IPEDS Calculated FTE = total 2004-05 credit or contact hours *(IPEDS Enrollment Report)* divided by quarter or semester factor (*IPEDS Institutional Characteristics Report)*
Quarter: 1 FTE = 45 credit hrs or 900 contact hrs
Semester/trimester/4-1-4: 1 FTE = 30 credit hrs or 900 contact hrs
Data extracted using *IPEDS Dataset Cutting Tool*

OCCURS FTE = sum of 2004-05 Lower Division Transfer, Professional Technical, and Developmental Education (includes ESL, ABE &GED) FTE
FTE = ((# of students in course)(# of hours course meets per term)) / 510 hours
Source: *Oregon Community College Profile 2004-05*
http://www.oregon.gov/CCWD/pdf/Profile/04-05Profile.pdf