**ACCREDITING COMMISSION for COMMUNITY and JUNIOR COLLEGES**

*Western Association of Schools and Colleges*

10 COMMERCIAL BOULEVARD
SUITE 204
NOVATO, CA 94949
TELEPHONE: (415) 506-0234
FAX: (415) 506-0238
E-MAIL: accjc@accjc.org
www.accjc.org





MEMO TO: Ms. Denise Whittaker
Interim Superintendent/President
Palo Verde College
One College Drive
Blythe, CA 92225

FROM: Barbara A. Beno, President *Barbara A. Beno*

DATE: May 15, 2012

SUBJECT: Enclosed Report of the Evaluation Team

Previously, the chairperson of the evaluation team sent you a draft report affording you the opportunity to correct errors of fact. We assume you have responded to the team chair. The Commission now has the final version of the report.

The Accrediting Commission for Community and Junior Colleges follows a policy of providing a copy of the final evaluation visit report to the chief executive officer of the visited institution prior to consideration by the Commission. Please examine the enclosed report.

- If you believe that the report contains inaccuracies, you are invited to call them to the attention of the Commission. To do so, you should submit a letter stating recommended corrections to the ACCJC President. The letter should arrive at the Commission office by end of day **May 18, 2012,** in order to be included in Commission materials. The letter should also be sent electronically in Word.

- ACCJC policy provides that, if desired, the chief administrator may request an appearance before the Commission to discuss the evaluation report. The Commission requires that the institution notify the Commission office by **May 18, 2012,** or earlier, of its intent to attend the meeting. This enables the Commission to invite the team chair to attend. The next meeting of the Accrediting Commission will be held on **June 6-8, 2012,** at The Marriott Hotel, San Francisco Airport, 1800 Old Bayshore Highway, Burlingame, California. The enclosure, "Appearing before the Commission," addresses the protocol of such appearances.

Please note that the Commission will not consider the institution as being indifferent if its chief administrator does not choose to appear before the Commission. If the institution does request to be heard at the Commission meeting, the chairperson of the evaluation team will also be asked to be present to explain the reasons for statements in the team report. Both parties will be allowed brief testimony before the Commission deliberates in private.

The enclosed report should be considered confidential and not given general distribution until it has been acted upon by the Accrediting Commission and you have been notified by letter of the action taken.

BAB/tl

Enclosure

cc: Mr. Brian Thiebaux, Accreditation Liaison Officer (w/o enclosure)

**ACCREDITING COMMISSION for COMMUNITY and JUNIOR COLLEGES**

*Western Association of Schools and Colleges*

10 COMMERCIAL BOULEVARD
SUITE 204
NOVATO, CA 94949
TELEPHONE: (415) 506-0234
FAX: (415) 506-0238
E-MAIL: accjc@accjc.org
www.accjc.org



## Appearing before the Commission

ACCJC policy provides that, if desired, the Chief Executive Officer (CEO) of an institution may request an appearance before the Commission to discuss the evaluation report. The opportunity is provided when the Commission is deliberating or acting upon matters that affect the institution.

The Commission meets in January and June. An institution must send written notification to the ACCJC office at least 15 days before the scheduled meeting if the CEO wishes to attend. If the institution also wishes to submit additional material to the Commission, it should exercise care, keeping in mind the Commission cannot read and absorb large amounts of material on short notice. Material should arrive at the ACCJC office with the written notification that the CEO has accepted the invitation to address the Commission.

The Chief Executive Officer is expected to be the presenter, and should consult with Commission staff if there are plans to invite other representatives to join the CEO. On the day of the Commission meeting, ACCJC staff will escort the CEO (and additional representatives) to and from the designated waiting area to the meeting at the appropriate time.

An institution's presentation should not exceed five (5) minutes. The Chair of the external evaluation team or designee will also be invited to attend. The Commissioners may ask questions of the CEO or representatives, and the chair of the evaluation team after college representatives have exited. The Commission will then will continue its deliberations in closed session. The CEO will be notified in writing of the subsequent action taken by the Commission.

The Commission considers this opportunity beneficial to the process of accreditation and values the occasion to learn new information from the institution.

Policies that are relative to this process are the *Policy on Access to Commission Meetings, Policy on Commission Actions on Institutions, Policy on Commission Good Practice in Relations with Member Institutions,* and *Policy on the Rights and Responsibilities of ACCJC and Member Institutions in the Accrediting Process.*

# Special Visit Report

# Palo Verde College
# One College Drive Blythe, California 92225

A Report Prepared for the
Accrediting Commission for Community and Junior Colleges
This report represents the findings of the Special Visit Team that visited

## Palo Verde College

on

May 3, 2012

W. Andrew Dunn, Team Chair, Vice Chancellor, Coast Community College District

## Table of Contents

**Team Members**

W. Andrew Dunn, Team Chair
Vice Chancellor, Finance and Administrative Services
Coast Community College District

Dr. Kindred Murillo
Superintendent/President
Lake Tahoe Community College District

Dr. Norval Wellsfry
Associate Vice President
Accrediting Commission for community and Junior Colleges

# Follow-Up Visit Report

DATE: May 12, 2012

TO: Accrediting Commission for Community and Junior Colleges

FROM: W. Andrew Dunn, Team Chair

SUBJECT: **Special Visit to Follow-Up on Special Report dated March 27, 2012**

**Introduction:**

In a letter dated November 15, 2011, the informed Palo Verde College that it had received information about the financial condition of the institution that gave the Commission concern about the institution's compliance with Eligibility Requirements and Accreditation Standards, and cited specific and serious concerns with the institution's immediate fiscal stability, financial management practices and governance practices. The ACCJC requested that the College provide a Special Report on twelve items cited in the aforementioned letter. Palo Verde submitted a Special Report to the ACCJC on December 14, 2011. The Special Report described significant debt, budgeting and governance problems at the institution that, if unaddressed, could threaten the continued fiscal solvency of the College District.

At its January 2012 meeting, the Commission reviewed the Palo Verde College Special Report and acted to impose Probation, and to require that the College prepare an update to its Special Report by April 1, 2012 detailing what actions the College had taken to address its fiscal crisis. The Commission also acted to assign a Special Visit Team examine the institution's report, and the evidence the College had provided to support its assertions in the report.

This Special Visit Team was assembled on April 18, 2012. The subsequent team visit was conducted at the Palo Verde Community College District on May 3, 2012. The ACCJC specifically charged the Special Visit Team on validating statements and content of the Special Report dated March 27, 2012.

**Background:**

The March 27, 2012, Palo Verde College Special Report (Report) was the culmination of a great deal of work that began last year. This report, authored by Interim Superintendent/President Whittaker, addresses significant financial issues that were identified in the College's December, 2011 Special Report and describes a path the District plans to use to maintain its solvency and return to financial stability.

The following documents were made available to the team:

- A letter and Special Report from PVCCD to the ACCJC dated March 27, 2012, in which the issues noted in the prior correspondence are acknowledged and a plan to address each has been developed.
- A letter from the ACCJC to PVCCD dated February 1, 2012 wherein they impose Probation. Specifically, deficiencies associated with Standard IIID, Standards IV.B.1.c and Eligibility Requirement 17 are referenced.
- A letter and Special Report from PVCCD letter and Special Report to the ACCJC dated December 14, 2011
- A letter from the ACCJC, dated November 15, 2011, in which concern is noted about the financial condition of the District. This letter requests a report to be delivered to the ACCJC not later than December 14, 2011.
- A letter from the ACCJC dated June 30, 2011, acknowledging receipt of the midterm report from PVCCD, dated March 15, 2011.

The team made requests to meet with appropriate College personnel and consultants who were felt to be best able provide information about the issues which gave rise to the Commission's concerns about the institution and the requirement of the special visit. In general, the team found that the college had prepared well for the visit by arranging for meetings with the individual and groups agreed upon earlier with the team chair. To that end, and in addition to an open session, the District made elected leaders and the following key constituents /groups available for discussion and interview.

- Board of Trustees
- College President
- CSEA Classified Union Leaders
- Fiscal Officer
- CTA Faculty Union Leaders
- Senate leadership
- College Council
- College Budget Committee

Sign-in sheets with names and organizational affiliations are attached to this report that reflects the broad base of institutional participation in the process. Additionally, the meeting with the College Council and Budget Committee was broadly attended with approximately 50 persons in the audience.

**Report Organization**

**Section I - Accreditation Standard Compliance**

The Commission acted to impose Probation on Palo Verde College due to the deficiencies associated with Standard IIID, Standard IV.B.1.c, and Eligibility Requirement 17. Noted in the February 1, 2012 letter to the college is the Special Visit Team (Team) is to "verify the institution's financial condition and actions taken or planned to resolve the financial and management issues identified in the College's 2011 Special Report." Also, noted in the Commission letter is "Palo Verde College has debt obligations that are so significant as to threaten the institutions ability to support student learning programs and services and to provide a reasonable expectation of both short term and long term financial solvency. The debt also appears to be such that it has negatively impacted the institution's ability to have sufficient cash flow and reserves to maintain stability". The commission expressed a concern that the institution has not developed realistic plans to meet the financial obligations.

**Standard IIID . Financial Resources**

*Financial resources are sufficient to support student learning programs and services and to improve institutional effectiveness. The distribution of resources supports the development, maintenance, and enhancement of programs and services. The institution plans and manages its financial affairs with integrity and in a manner that ensures financial stability. The level of financial resources provides a reasonable expectation of both short-term and long-term financial solvency. A financial resource planning is integrated with institutional planning.*

**Eligibility Requirement #17 . Financial Resources** - *The institution documents a funding base, financial resources, and plans for financial development adequate to support student learning programs and services, to improve institutional effectiveness, and to assure financial stability.*

**Findings and Evidence:** The Team found that the College has made significant progress in identifying and developing plans to address cash flow, the long-term debt, and fiscal solvency. The Team found a college faculty, staff, and administration committed to addressing the financial and governance issues. The College's constituencies candidly reflected on their lack of real knowledge, prior to this crisis, concerning the level and effectiveness of governance processes related to and institutional financial management and effectiveness. The groups noted they believed there was transparency in the budget and financial practices of the institution. What became clear to everyone at the college through this financial crisis was that financial matters were controlled through two key administrators and the college planning and budgeting processes were perfunctory in nature, and tough questions were not being asked by the board, administration, faculty and staff. In contrast, this team found a higher level of effective participation in the planning related to financial resources through enhanced constituent involvement and increasingly transparent processes.

The mechanism of an external audit failed the College Board, as the practice of loaning money from one fund to another without full repayment as well as the resultant use of COP resources for operational purposes should have been noted by the external auditors in the financial audits. The audit reports therefore presented a false sense of security and financial stability.

The PVC Special Report provided evidence of substantial improvements in financial analysis and transparency, governance, and budget planning. The PVC Special Report states the college **has** begun negotiating concessions with bargaining units, offered separation incentives to reduce personnel costs, implemented cost savings initiatives throughout the college, and initiated a refinance of the COPS to address financial analysis. The college has also plans to add checks and balances through the addition of a third party expert to review the college financials and a new auditor. The team found this assertion to be true. There are also plans to hire a new auditor and cash flow management has been incorporated into fiscal review. This was further verified through interviews with the meetings with faculty, staff, managers, and board members. The budget information has been vetted college wide and input and buy in from all constituencies is evident. The new President is in the process of developing an inclusive and transparent culture at the college.

A variety of realistic budget scenarios have been developed to more fully communicate the implications of the financial situation the college is facing along with available alternates. The college is in the process of hiring a Financial Advisor to guide them through a process that may allow restructuring of the Certificates of Participation (COP's). It appears the fiscal planning assumptions in the report reflect a "worst case" scenario with the COP debt payment schedule; i.e., no change in debt service obligation. Thus any restructuring would presumably move the college's budget in a positive direction.

The team also verified that the refinancing of the COPS was part of a financing arbitrage mechanism that has been recommended to many of the small, rural, and isolated colleges in California. A group of consultants have been targeting small college trustees and presidents with a program that sets up mechanisms to leverage debt through state capital outlay reimbursements. The difference between the interest gained for cost of debt and the money held in a trust account or LAIF is projected to provide income to the college. During strong economic times this arbitrage mechanism has proven successful. With the recent economic downslide the results were the opposite for Palo Verde.

http://www.treasurer.ca.gov/cdiac/reports/reimbursements.pdf

Leadership from both the CTA and CSEA expressed strong support in helping correct the finances at the college. During the course of the team meetings with the union leadership the following, while not yet negotiated and reflected in contract, was shared:

- Certain non-teaching faculty, primarily counselors, would be moved into the classroom.

- If Minimum Qualifications could be validated, some classified members might move to the classroom.
- The Third-Party Administrator for health benefits has been able to negotiate coverage that will allow less than 100% participation meaning that employees with dual coverage can opt out of the program resulting in reduced cost for the district.
- Faculty plan to take on additional teaching hours at no cost increasing their base workload to 34 equivalent units.
- Members of the classified service have voluntarily signed on for a reduced work year.

The team recognizes these are negotiable items and reflects them in this report as they will provide a true cost savings to the college. However, as noted in the conclusion, these and any other negotiated solutions must be included in signed collective bargaining agreements if they are to be implemented and made part of the record of evidence.

Further, the multi-year budget projection included in the college's Special Report projects flat revenues through the reporting period (2017), which suggests both that the college will continue to achieve or match its current enrollment base and that no further revenue reductions will be imposed by the state. This projection also shows salary and benefit expense (Objects 1000-3000) flat through the period. This "true flat" expense projection suggests a freeze on step and column movement and any other cost item in contract. With the majority of institution's expenses dedicated to contract salaries and benefits, the negotiated changes referenced above should also address some mechanism for labor and management to collaborate on modified solutions in the event the-underlying assumptions of flat revenues and flat expenditures must be changed.

It was abundantly clear to this team that the leadership exercised by Interim President Whittaker had resulted in a change in outlook and participation in college governance matters. That same sense of change was reflected in the conversations the team had with constituencies throughout the college. The team sought evidence that when the inevitable leadership transition took place these changes would be institutionalized and therefore sustainable. The college has developed new criteria for the hiring of a new Superintendent/President that includes a financial skill set. The college also plans to hire a new CFO with the required knowledge and skills. This newfound awareness has begun a culture that recognizes the importance of strong fiscal oversight. The continuation and development of this culture will depend on the future emphasis of the leaders of the college and the continued participation of the college faculty, staff, managers, and Board.

The Special Report by the Palo Verde Community College included a Budget Stability plan to address the financial challenges that confront the District. There are a number of specific challenges that must be solved for the College to achieve financial stability. The College originally issued $18.6 million in Certificates of Participation (COPs) in order to complete several capital projects. The College then refinanced these COPs and increased the debt level to $31.995 million as part of a plan to generate additional revenue through interest earnings. However the financial returns have not materialized and the College is now faced with the prospect of repaying this debt out of existing revenues. Additionally there were difficulties with the District Auditor and the COP proceeds were being used in part for general operating purposes which created a false sense of security concerning the District's financial condition. However the District is now fully aware of the financial challenges it faces and it has developed a stabilization plan to address these challenges.

The budget scenario that is the basis for the provisions of the stability plan outlined below is based on an assumption that there will be a workload reduction imposed by the California Community Colleges but that the tax initiative being proposed for California will be successful in November and that no Mid-Year budget reductions will be required. If the Initiative is not successful, further meaningful expense reductions will need to take place, challenging the assumptions reflected in the stability plan submitted by the College.

The stability plan included components that address its financial condition. These components are summarized below.

- COP debt obligation: The District's $32 million COP debt extends through 2037 with an average annual debt service of over $2.3 million. $15.2 million of this debt has not been expended. There are several alternative plans under consideration by the District to address the COP debt obligation. In the Special Report submitted to the Commission, the College presented a "worst case" scenario in which the unexpended revenues ($15.2 million) were utilized through 2028 to pay down part of the debt service. The remainder of the debt service would be addressed through expenditure reductions and funds available after 2016 after the SERP obligation is fulfilled. Another option would be to repurchase part of the COP instruments in 2016 using a Call Provision which would reduce the overall COP obligation and reduce the annual debt service obligation to about $1.6 million per year. Another option would be to seek an earlier repurchase of the debt obligation based on the provision that the Early Call provision would not need to be paid. A new financial consulting firm, Magis, has been secured to provide guidance and direction to the District on this issue. Magis is currently reviewing all documents related to the COPs. It has been discovered that there are only 20 bond holders, and one of those holders has $25 million of the COPs. The Businesses who were involved in the original COP structure are no longer in operation. This Early Call issue should be clarified by June 30 of this year.

A restructure of the COPs would reduce the total financial burden to the District. However the total amount of the District's debt obligation and annual debt service remains as a significant burden on the District and its annual budget through maturity in 2037.

- 50% law deficiency: At present, the District is out of compliance with the California 50% law requirement. The District is at 42% for the current year and is projected to be compliant in the 2012-13 budget year. In the next year, up to 5 Counselors are proposed to be reassigned to classroom teaching responsibilities and one classified person will be reassigned to teaching responsibility. Additionally the College has initiated actions to reduce non-teaching expenditures and workload reductions for classified staff and management to reduce non-teaching expenditures. Although these changes will bring the District into compliance, it ability to continue to meet these requirements is dependent on current budget assumptions.

- 5% Reserve: The District has made provision within its budget to be able to maintain a 5% reserve. This provision is included in all budget scenarios used by the College. The 5% reserve is based on the College's desire to not be identified as a "Watch List" college by the State Chancellor's Office.

- Workload reduction and FTES: The College has developed its budget based on an FTES level of 1688 FTES. It plans set a target of 1750 FTES to ensure that it meets its goal. The College plans to close and consolidate most of its facilities and offer only on-line courses during the summer. At present the District serves over 10% of its local population. It will be necessary to maintain that level of participation in order to achieve its enrollment goal.

- 25% incarceration rate: There is a limit of 25% on incarcerated enrollments for federal financial aid purposes. At present the District is at 23% and must carefully monitor its enrollment to ensure that it does not exceed the limit. The College has applied for a waiver from the U.S. Secretary of Education. If the waiver is granted, the College should be able to increase its level of enrolled incarcerated students, although it will still need to deal with its overall enrollment cap. It was reported that there is unmet demand for College services in the correctional institutions served by the College.

- Utility Cost Control. The College has initiated a variety of actions to reduce utility costs including the partial closure of College facilities over the summer. One aspect of the reduction includes the complete closure of the College for two two-week periods. This will include two weeks in July 2012 and two weeks in June 2013. Classified staff have been granted an additional

20 days of floating holidays per year which must be taken during these closures.

- Bankruptcy by construction company and bonding company: The College is pursuing litigation with the companies involved in the construction projects that resulted in the use of COPs to complete the projects. The Performing Arts Center which was part of this project has not yet been released by the Division of the State Architect and is not yet available for use by the College.

- Expenditure reductions: The College has initiated a number of expenditure reductions in addition to the utility cost control noted above. It has completed a negotiation with CTA – the faculty bargaining agent – and has gotten agreement through a memorandum of understanding on a number of contract reductions. The District had issued "March 15" notices and these reductions were agreed to so that there would be no layoff of faculty. The team was informed that these notices had been withdrawn the week prior to our visit. A copy of the MOU and the conditions related to it was not provided to the team. Negotiations are continuing with CSEA – the classified bargaining unit. As of the time of the visit, this memorandum of understanding had not yet been concluded and the concessions were unknown. Meet and confer agreements have been concluded with non-represented employees. There seemed to be an understanding with the bargaining units that these concessions would be revisited if there were revenue enhancements. It was also noted that triggers were included in the CTA agreement should mid-year reductions be necessary. The nature of the triggers was unclear, but it was intimated that the trigger would involve additional negotiations. These negotiations will presumably be with the new leadership team at the College. Other expenditure reductions include voluntary medical benefits opt-outs and a voluntary resignation incentive. The final impact of these expenditure reductions and the CSEA renegotiation is not yet finalized. The District has also held extensive brainstorming sessions with College staff to identify other cost reductions. An extensive list of potential reductions was included in the Special Report. Some of these reductions would have major impacts on the budget and many are either pending or in process and the level of impact has not yet been assessed.

Short and Long Term stability projections

The District has identified a number of short term actions that will ensure near term stability for the District. Through the utilization of COP funds deposited with the (Local Agency Investment Fund) LAIF, the College is able to continue functioning. This is dependent on the budget scenarios adopted by the District that include both stable revenues and flat expenditures. The stable revenues are dependent on no further reductions in Workload by the State and meeting enrollment targets. The flat expenditures are dependent on no increases in expenditures, many of which require continuing agreement by the bargaining units. Additionally, it assumes expenditures such as utility costs and other operating expenditures will not increase and that certain cost containment strategies will perform as anticipated.

On a long term basis, the District has the continuing obligation of debt service for the COPs. Although this debt service may be reduced through restructuring or exercising a Call Provision in 2016, a significant expenditure obligation will remain through 2037. In a best case scenario, the District will have a continuing obligation against its general fund of about $1.6 million per year for this entire period. The implication is that the District's ability to meet the educational needs of its community will be significantly reduced for this entire period.

**Conclusion**: The team found that the District had developed a budget stability plan to address its short term financial obligations. It has identified strategies to address its deficiency with the California 50% law. A budget has been developed that suggests the district will be able to maintain a 5% contingency reserve. Expenditures have been reduced and the District budget has been adjusted so that it will be able to meet its debt service obligations for the short term.

It has not yet resolved current term concessions with all of its collective bargaining units. The five year budget scenario presented in the Special Report assumed that the revenue and expense plan would remain flat throughout the period. Trigger mechanisms needed to absorb the impact of any changes to this spending plan, especially for those expenditures not related to salaries and benefits have not yet been negotiated.

Although the District has invested significant resources and commitment into developing a budget stability plan that is stable in the short term, it needs to demonstrate the long-term financial resources necessary to improve institutional effectiveness and long term financial solvency. Additionally, its short term financial stability is based on a number of assumptions that may not be realized, and the institution may therefore need to make substantial spending reductions if revenue and expense projections change.

While the college has developed a viable budget plan to re-create and maintain fiscal solvency, there are areas that need to be brought to completion. As noted elsewhere in this document, collective bargaining issues need to be settled to include both current term matters and triggers should out year assumptions change. It should be noted however that the COP payment assumptions reflect the status quo and if the restructuring is successful the annual debt service burden should lighten.

The team was unable to determine whether the budgetary assumptions will unfold as planned and to determine whether the college can meet Standard III.D and Eligibility Requirement 17 at this time. .

**Standard IV.B.1.c . Leadership and Governance**

Standard IV, B. and 1.c states *In addition to the leadership of individuals and constituencies, institutions recognize the designated responsibilities of the governing board for setting policies and of the chief administrator for the effective operation of the institution. Multi-college districts/ systems clearly define the organizational roles of the district/system and the colleges.*

*The institution has a governing board that is responsible for establishing policies to assure the quality, integrity, and effectiveness of the student learning programs and services and the financial stability of the institution. The governing board adheres to a clearly defined policy for selecting and evaluating the chief administrator for the college or the district/system.*

> c. *The governing board has ultimate responsibility for educational quality, legal matters, and financial integrity.*

**Findings and Evidence:** The Report notes that the College Board of Trustees and constituent groups were caught off guard by the current developments due to the fact the College has a history of:

- A stable reserve
- Consistent and positive audits
- Affluence and financial stability

The Team has verified through interviews and documentation (fiscal trends and audits) that the Board and constituents had inadequate and misleading financial information. The Board and constituents have dealt with the initial shock of the revelation that the perception of fiscal stability over the last three-years was illusory. They have worked extremely hard to ensure that leadership is transparent, governance processes are well functioning and include appropriate Board oversight and that financial and budget reports are developed, reviewed, and approved through appropriate mechanisms.

The College is placing an emphasis on fiscal management in the hiring of the next permanent president and the Board has gained an increased understanding of their responsibility in assuring the quality, integrity, and effectiveness of the College. The Board and College leadership are participating in multiple meetings to learn, review, and ask questions about the finances of the College. The College is currently under the leadership of a strong interim President and interim financial consultant. The professional development and training that has occurred on the campus has enabled constituent leaders to fully engage in institutional dialogue pertaining to fiscal management and stability.

**Conclusion:** The Team found the College constituencies have worked together to ensure that the planning and budgeting processes established by the new leadership are working effectively and facilitating open and meaningful dialogue. The College has developed the institutional capacity to ask appropriate and thoughtful questions pertaining to fiscal management and stability. Participation and commitment of the Board, faculty, staff, and managers is focused at ensuring that the college financial stability as well as financial decision-making processes are working effectively and ensure stability. Although Board policy on fiscal and budget management was reviewed in 2009 it is evident that it did not function effectively. The mechanism of the external audit and auditor relationship to the Board failed the College. The work on governance processes has been significant and substantive and will ensure that there is an improvement in the financial stability of the institution. The Board is more aware of its fiscal and fiduciary responsibility to the institution.

The College appears to now meet the Standard, although there is a concern for the sustainability of the improvements to governance. The team verified the institutional commitment to governance and the next review of the college should include verification that the commitment has been sustained.

## Table of Contents

# Follow-Up Visit Report

DATE: May 12, 2012

TO: Accrediting Commission for Community and Junior Colleges

FROM: W. Andrew Dunn, Team Chair

SUBJECT: **Special Visit to Follow-Up on Special Report dated March 27, 2012**

**Introduction:**

In a letter dated November 15, 2011, the informed Palo Verde College that it had received information about the financial condition of the institution that gave the Commission concern about the institution's compliance with Eligibility Requirements and Accreditation Standards, and cited specific and serious concerns with the institution's immediate fiscal stability, financial management practices and governance practices. The ACCJC requested that the College provide a Special Report on twelve items cited in the aforementioned letter. Palo Verde submitted a Special Report to the ACCJC on December 14, 2011. The Special Report described significant debt, budgeting and governance problems at the institution that, if unaddressed, could threaten the continued fiscal solvency of the College District.

At its January 2012 meeting, the Commission reviewed the Palo Verde College Special Report and acted to impose Probation, and to require that the College prepare an update to its Special Report by April 1, 2012 detailing what actions the College had taken to address its fiscal crisis. The Commission also acted to assign a Special Visit Team examine the institution's report, and the evidence the College had provided to support its assertions in the report.

This Special Visit Team was assembled on April 18, 2012. The subsequent team visit was conducted at the Palo Verde Community College District on May 3, 2012. The ACCJC specifically charged the Special Visit Team on validating statements and content of the Special Report dated March 27, 2012.

**Background:**

The March 27, 2012, Palo Verde College Special Report (Report) was the culmination of a great deal of work that began last year. This report, authored by Interim Superintendent/President Whittaker, addresses significant financial issues that were identified in the College's December, 2011 Special Report and describes a path the District plans to use to maintain its solvency and return to financial stability.

The Commission acted to impose Probation on Palo Verde College due to the deficiencies associated with Standard IIID, Standard IV.B.1.c, and Eligibility Requirement 17. Noted in the February 1, 2012 letter to the college is the Special Visit Team (Team) is to "verify the institution's financial condition and actions taken or planned to resolve the financial and management issues identified in the College's 2011 Special Report." Also, noted in the Commission letter is "Palo Verde College has debt obligations that are so significant as to threaten the institutions ability to support student learning programs and services and to provide a reasonable expectation of both short term and long term financial solvency. The debt also appears to be such that it has negatively impacted the institution's ability to have sufficient cash flow and reserves to maintain stability". The commission expressed a concern that the institution has not developed realistic plans to meet the financial obligations.

**Standard IIID . Financial Resources**

*Financial resources are sufficient to support student learning programs and services and to improve institutional effectiveness. The distribution of resources supports the development, maintenance, and enhancement of programs and services. The institution plans and manages its financial affairs with integrity and in a manner that ensures financial stability. The level of financial resources provides a reasonable expectation of both short-term and long-term financial solvency. A financial resource planning is integrated with institutional planning.*

**Eligibility Requirement #17 . Financial Resources** - *The institution documents a funding base, financial resources, and plans for financial development adequate to support student learning programs and services, to improve institutional effectiveness, and to assure financial stability.*

**Findings and Evidence:** The Team found that the College has made significant progress in identifying and developing plans to address cash flow, the long-term debt, and fiscal solvency. The Team found a college faculty, staff, and administration committed to addressing the financial and governance issues. The College's constituencies candidly reflected on their lack of real knowledge, prior to this crisis, concerning the level and effectiveness of governance processes related to and institutional financial management and effectiveness. The groups noted they believed there was transparency in the budget and financial practices of the institution. What became clear to everyone at the college through this financial crisis was that financial matters were controlled through two key administrators and the college planning and budgeting processes were perfunctory in nature, and tough questions were not being asked by the board, administration, faculty and staff. In contrast, this team found a higher level of effective participation in the planning related to financial resources through enhanced constituent involvement and increasingly transparent processes.

The mechanism of an external audit failed the College Board, as the practice of loaning money from one fund to another without full repayment as well as the resultant use of COP resources for operational purposes should have been noted

- If Minimum Qualifications could be validated, some classified members might move to the classroom.
- The Third-Party Administrator for health benefits has been able to negotiate coverage that will allow less than 100% participation meaning that employees with dual coverage can opt out of the program resulting in reduced cost for the district.
- Faculty plan to take on additional teaching hours at no cost increasing their base workload to 34 equivalent units.
- Members of the classified service have voluntarily signed on for a reduced work year.

The team recognizes these are negotiable items and reflects them in this report as they will provide a true cost savings to the college. However, as noted in the conclusion, these and any other negotiated solutions must be included in signed collective bargaining agreements if they are to be implemented and made part of the record of evidence.

Further, the multi-year budget projection included in the college's Special Report projects flat revenues through the reporting period (2017), which suggests both that the college will continue to achieve or match its current enrollment base and that no further revenue reductions will be imposed by the state. This projection also shows salary and benefit expense (Objects 1000-3000) flat through the period. This "true flat" expense projection suggests a freeze on step and column movement and any other cost item in contract. With the majority of institution's expenses dedicated to contract salaries and benefits, the negotiated changes referenced above should also address some mechanism for labor and management to collaborate on modified solutions in the event the-underlying assumptions of flat revenues and flat expenditures must be changed.

It was abundantly clear to this team that the leadership exercised by Interim President Whittaker had resulted in a change in outlook and participation in college governance matters. That same sense of change was reflected in the conversations the team had with constituencies throughout the college. The team sought evidence that when the inevitable leadership transition took place these changes would be institutionalized and therefore sustainable. The college has developed new criteria for the hiring of a new Superintendent/President that includes a financial skill set. The college also plans to hire a new CFO with the required knowledge and skills. This newfound awareness has begun a culture that recognizes the importance of strong fiscal oversight. The continuation and development of this culture will depend on the future emphasis of the leaders of the college and the continued participation of the college faculty, staff, managers, and Board.

The Special Report by the Palo Verde Community College included a Budget Stability plan to address the financial challenges that confront the District. There are a number of specific challenges that must be solved for the College to achieve

A restructure of the COPs would reduce the total financial burden to the District. However the total amount of the District's debt obligation and annual debt service remains as a significant burden on the District and its annual budget through maturity in 2037.

- 50% law deficiency: At present, the District is out of compliance with the California 50% law requirement. The District is at 42% for the current year and is projected to be compliant in the 2012-13 budget year. In the next year, up to 5 Counselors are proposed to be reassigned to classroom teaching responsibilities and one classified person will be reassigned to teaching responsibility. Additionally the College has initiated actions to reduce non-teaching expenditures and workload reductions for classified staff and management to reduce non-teaching expenditures. Although these changes will bring the District into compliance, it ability to continue to meet these requirements is dependent on current budget assumptions.

- 5% Reserve: The District has made provision within its budget to be able to maintain a 5% reserve. This provision is included in all budget scenarios used by the College. The 5% reserve is based on the College's desire to not be identified as a "Watch List" college by the State Chancellor's Office.

- Workload reduction and FTES: The College has developed its budget based on an FTES level of 1688 FTES. It plans set a target of 1750 FTES to ensure that it meets its goal. The College plans to close and consolidate most of its facilities and offer only on-line courses during the summer. At present the District serves over 10% of its local population. It will be necessary to maintain that level of participation in order to achieve its enrollment goal.

- 25% incarceration rate: There is a limit of 25% on incarcerated enrollments for federal financial aid purposes. At present the District is at 23% and must carefully monitor its enrollment to ensure that it does not exceed the limit. The College has applied for a waiver from the U.S. Secretary of Education. If the waiver is granted, the College should be able to increase its level of enrolled incarcerated students, although it will still need to deal with its overall enrollment cap. It was reported that there is unmet demand for College services in the correctional institutions served by the College.

- Utility Cost Control. The College has initiated a variety of actions to reduce utility costs including the partial closure of College facilities over the summer. One aspect of the reduction includes the complete closure of the College for two two-week periods. This will include two weeks in July 2012 and two weeks in June 2013. Classified staff have been granted an additional

dependent on no further reductions in Workload by the State and meeting enrollment targets. The flat expenditures are dependent on no increases in expenditures, many of which require continuing agreement by the bargaining units. Additionally, it assumes expenditures such as utility costs and other operating expenditures will not increase and that certain cost containment strategies will perform as anticipated.

On a long term basis, the District has the continuing obligation of debt service for the COPs. Although this debt service may be reduced through restructuring or exercising a Call Provision in 2016, a significant expenditure obligation will remain through 2037. In a best case scenario, the District will have a continuing obligation against its general fund of about $1.6 million per year for this entire period. The implication is that the District's ability to meet the educational needs of its community will be significantly reduced for this entire period.

**Conclusion**: The team found that the District had developed a budget stability plan to address its short term financial obligations. It has identified strategies to address its deficiency with the California 50% law. A budget has been developed that suggests the district will be able to maintain a 5% contingency reserve. Expenditures have been reduced and the District budget has been adjusted so that it will be able to meet its debt service obligations for the short term.

It has not yet resolved current term concessions with all of its collective bargaining units. The five year budget scenario presented in the Special Report assumed that the revenue and expense plan would remain flat throughout the period. Trigger mechanisms needed to absorb the impact of any changes to this spending plan, especially for those expenditures not related to salaries and benefits have not yet been negotiated.

Although the District has invested significant resources and commitment into developing a budget stability plan that is stable in the short term, it needs to demonstrate the long-term financial resources necessary to improve institutional effectiveness and long term financial solvency. Additionally, its short term financial stability is based on a number of assumptions that may not be realized, and the institution may therefore need to make substantial spending reductions if revenue and expense projections change.

While the college has developed a viable budget plan to re-create and maintain fiscal solvency, there are areas that need to be brought to completion. As noted elsewhere in this document, collective bargaining issues need to be settled to include both current term matters and triggers should out year assumptions change. It should be noted however that the COP payment assumptions reflect the status quo and if the restructuring is successful the annual debt service burden should lighten.

on the campus has enabled constituent leaders to fully engage in institutional dialogue pertaining to fiscal management and stability.

**Conclusion:** The Team found the College constituencies have worked together to ensure that the planning and budgeting processes established by the new leadership are working effectively and facilitating open and meaningful dialogue. The College has developed the institutional capacity to ask appropriate and thoughtful questions pertaining to fiscal management and stability. Participation and commitment of the Board, faculty, staff, and managers is focused at ensuring that the college financial stability as well as financial decision-making processes are working effectively and ensure stability. Although Board policy on fiscal and budget management was reviewed in 2009 it is evident that it did not function effectively. The mechanism of the external audit and auditor relationship to the Board failed the College. The work on governance processes has been significant and substantive and will ensure that there is an improvement in the financial stability of the institution. The Board is more aware of its fiscal and fiduciary responsibility to the institution.

The College appears to now meet the Standard, although there is a concern for the sustainability of the improvements to governance. The team verified the institutional commitment to governance and the next review of the college should include verification that the commitment has been sustained.