**MEETING OF THE BUSINESS AFFAIRS COMMITTEE
OF THE BOARD OF TRUSTEES
Community College of Philadelphia
Wednesday, September 21, 2011 – 9:00 A.M.**

Present: Mr. Jeremiah White (Chair), presiding; Mr. Matthew Bergheiser, Ms. Varsovia Fernandez, Ms. Lydia Hernandez Velez, Mr. Gil Wetzel, Dr. Stephen M. Curtis, Mr. Gary Bixby, Dr. Thomas R. Hawk, Mr. Todd Murphy, and Mr. James P. Spiewak

AGENDA – PUBLIC SESSION

(1) 2010-11 Final Budget Results (Information Item):

Staff provided an overview of the College's budget results for fiscal year 2010-11. The results were favorable. The 2010-11 budget approved by the Board had a projected use of carry-over funds in the amount of $2.1 million. Despite a mid-year reduction in City funding of $1.06 million which pushed the potential budget shortfall to $3.2 million, the College was able to end the year with a modest surplus prior to the impact of GASB 45 post-retirement healthcare benefit expense accrual. The various factors which contributed to the positive financial performance results for the year were reviewed for the Committee.

Both credit and non-credit enrollments for the year were very close to the levels projected in the 2010-11 budget plan. Total credit FTEs were 283 FTEs or 2.0 percent higher than in the prior fiscal year. Revenues for the year were $121.6 million or $133,000 less than budgeted. The major factor that reduced the revenues for the year was the mid-year City reduction in its appropriation to the College by $1.06 million. This City reduction was partially offset by the State forgiveness of audit findings from the 2004 and 2005 fiscal years which had the impact of returning $775,944 of State funds to the 2010-11 operating budget. The State elected to forgive all community college audit findings for those two years because of its failure to meet its FTE funding obligations for those years.

Expenditures for the year were reduced by $3.7 million from the level originally included in the approved budget. Active steps were taken throughout the fiscal year to control discretionary expenditures in areas where costs could be controlled without an adverse impact on student outcomes. Where feasible, administrative and classified staff positions were frozen or kept vacant for a period of time during the year in order to increase the amount of budgeted salary dollars that lapsed during the year. Part-time administrative, part-time classified, student worker, and overtime expenditures were tightly controlled and resulted in a savings of approximately one-half million dollars. In order to meet the College's contractual obligations with respect to full-time staffing, there was no significant change in the amount of full-time faculty salary expenditures from the amount budgeted.

A broad range of expenditure controls in discretionary budget categories resulted in $1.4 million worth of savings. A key contributor to cost savings in these categories was a reduction in leased equipment expenditures. Computer and other technology equipment leases were deferred, where possible, to reduce the cost of leasing new equipment. This was done in circumstances where equipment was performing satisfactorily and did not require immediate replacement.

A total of $1.1 million of savings was achieved in the Facilities area. Electrical costs were $727,000 less than budgeted. The original assumption was that the electrical deregulation which occurred during the fiscal year would have a substantial inflationary impact on the College's electrical costs. However, the College was able to undertake a bid process that identified an alternative provider and achieved a lower cost-per-kilowatt hour for the 2010-11 year than had been incurred in the prior fiscal year. Contract cleaning costs were successfully reduced by $208,000 as a result of a restructuring of the contract requirements and a rebid of the outside cleaning contract. Contract security expenses were reduced by restructuring the deployment of contract security staff.

The final major area of budgetary savings during the year occurred for medical costs. The College's medical program is on a self-insurance basis. At the start of each fiscal year, an actuarial estimate for the medical costs for the year is developed considering both institutional prior-year expense patterns and healthcare trends. The College's actual expenditures for medical costs for the 2010-11 year were $426,000 lower than the actuarial estimates that were made at the beginning of the year.

Ms. Fernandez asked about the College's current enrollment patterns, and whether the 2010-11 enrollments would be sustained in the current year. Dr. Hawk responded that overall enrollment levels for the 2011-12 year were essentially equal to the prior year enrollments. However, there was a shift from full-time to part-time enrollment and a modest drop in new student numbers. There is no clear explanation for why there has been a shift from full-time to part-time attendance. Possible explanations include a slightly improving job market, and the fact that no increase in the Pell support level may have made full-time attendance less feasible for some students. Dr. Curtis noted that, around the State, there had been some declines in enrollment at most community colleges in the 2010-11 year and even larger declines were being experienced for the 2011-12 fiscal year. Staff discussed the circumstance that the absence of growth in either City or State funding makes maintaining enrollment-based revenues extremely important to sustaining the College's financial viability over the next several years.

The Committee discussed the fact that the 2011-12 year budget again has a projected use of carry-over funds of approximately $2.4 million. With the continuing tightening of institutional expenditures, the ability for the College to close that gap through further savings in operational expenses becomes increasingly more difficult. Dr. Curtis emphasized that the College's commitment to the full-time faculty staffing requirements in employee contracts would be met; and that as it had in the 2010-11 year, the College will continue to look at ways to control staff expenditures in administrative and classified areas. Multi-year financial planning at the present time is somewhat impeded by the expiration of the faculty and staff contracts, and uncertainty with respect to salary and fringe benefit costs over the next several years.

(2) Significant Changes – 2011 Financial Statements (Information Item):

The 2011 Financial Statements were scheduled to be presented to the Board's Audit Committee on September 27, 2011. Staff presented a summary of the key changes in assets, liabilities and net assets which are reported in the 2010-11 Financial Statements. The factors that resulted in the larger year-to-year changes in the College's financial accounts were reviewed with the Committee. Attachment A contains the summary of account changes that was distributed to the Committee.

Dr. Hawk noted that several key events during the course of the year had resulted in shifts in several of the College's general ledger accounts. The decision of the Board to purchase the property at 430-40 N. 15th Street using the College's cash resources had a direct impact on both the College's plant assets and on cash balances. The goal to improve the College's investment rate of return by moving $10 million of the College's core cash from short-term to longer-term fixed-income investments, reduced the amount of assets reported in the short-term investment assets account, and increased the amount of assets reported in long-term investments. The progress toward completing the College's construction projects significantly increased the value of capital assets. Finally, the required annual recording of a portion of the GASB post-retirement healthcare expense accrued liability reduced net assets by $6.04 million over what they would otherwise have been without the recording of this non-cash accounting entry.

Mr. Murphy reviewed the charts found in Attachment A. There was no major change in Accounts Receivable. Tuition and fee receivables were up by about $899,551 as a result of company billings that were receivable as of June 30th from the School District of Philadelphia and the Hospital of the University of Pennsylvania. In addition, there were pending federal financial aid disbursements that had not been received as of June 30th. The only significant increase in receivable from government agencies was a $678,295 increase in receivable from the School District as of June 30th for the College's Gateway to College program. This receivable was paid to the College in July 2011. As of June 30th, Accounts Payable were $3.8 million lower than in the prior year. A significant factor was the circumstance of a pay day on June 30, 2011 which resulted in accrued payroll salary and tax liabilities that were significantly lower than they would have been if the last pay date in the fiscal year had been earlier in June. Payables to government agencies dropped from $1.3 million to $80,000 primarily as a result of the State forgiveness of the 2004 and 2005 audit liabilities. The payable to the City of Philadelphia for parking garage proceeds, which was $195,000 in 2010, was reduced to zero for the 2011 year. Staff explained that based upon a recommendation at a spring meeting of the Business Affairs Committee, the City share of the proceeds from the 2011 year ($201,000) had been placed in a restricted net asset account in the plant fund for immediate use to undertake essential renovations to the College's parking garage. Dr. Hawk noted that the 1986 structure needed some significant capital improvement expenditures in order to extend the life of the parking garage. Examples include replacement of expansion joints, caulking and sealing of key exposure areas, and electrical upgrades.

The College's capital lease obligations dropped by $295,000 as a result of the decision to defer some new capital leases during the 2010-11 year in order to achieve a balanced budget. Long-term debt dropped by $7.5 million as a result of the College's continuing debt service payments of existing debt coupled with no significant borrowing for the 2011 fiscal year. Post-employment benefits (the GASB 45 liability) increased from $16.6 million to $22.6 million based upon the 30-year phase-in of the GASB 45 post-employment healthcare benefit expense accrual.

Unrestricted fund balances dropped from $12.2 million to $7.6 million primarily as a result of the impact of the GASB 45 expense accrual. As has been discussed with the Committee on several prior occasions, the GASB 45 post-retirement healthcare expense accrual will eventually result in unrestricted fund balances becoming negative. However, this will have no real impact on the College's liquidity or underlying financial condition. The net investment in capital assets increased by $10.9 million as a result of the ongoing construction of new space, and the acquisition of the 430-40 N. 15th Street property for $5.8 million. Unrestricted plant fund assets went from a positive $286,000 to a negative $4.3 million based upon the decision to purchase the 430-40 N. 15th Street property from cash without a source of funding (e.g., loan proceeds) in the plant fund. Overall, the College's net assets increased from $84.4 million to $85.9, an increase of $1.5 million.

(3) West Philadelphia Regional Center Outfitting and Construction Budget (Action Item):

Discussion: The College is in the final stages of completing an expansion and renovation of the College's West Regional Center. The project has two components: leasehold improvements to an additional 7,300 square feet of new space that has been leased immediately adjacent to the existing Center, and modifications to the existing classroom building. At the March 3, 2011 meeting, the Board authorized the borrowing of one million dollars from the State Public School Building Authority (SPSBA) for the leasehold improvements and other costs associated with completing the West Regional Center Project. Changes to the existing Center include: creating additional faculty and staff office areas; improvements to student lounge spaces; renewal of some instructional spaces; and building the connection between the existing building and the newly-leased space.

Dr. Hawk noted that the renovations to the newly-leased space were almost complete. The rear exterior appearance of the building has been greatly improved. A presence for the Center on 48th Street has been established and a long-standing ADA access issue resolved. Mr. Wetzel noted that the College was making an important contribution to the revitalization of West Philadelphia that should be promoted.

Ms. Fernandez asked about the enrollment growth potential associated with the expansion. Dr. Hawk stated that the primary motivation for the projects was to strengthen the computer classrooms and student and academic support resources at the Center. A Learning Commons modeled after the one in the new Northeast Center building is being created. While higher quality and more visible facilities should attract some additional enrollments, the major goal was to improve services to students and to ensure parity in student experiences at the College's three Regional Centers. Dr. Curtis noted that the easy access to the Main Campus for residents from West Philadelphia creates less demand for neighborhood-based programs than was the case in the Northeast.

In addition to SPSBA funds, two other sources of funding are planned to be used to complete the improvements to the West Regional Center. These include capital equipment dollars from the Predominantly Black Institution Grant and 2011-12 capital budget. The anticipated budget for the renovation of existing space and the outfitting budget for both renovated and leased space is as follows:

Expenses

Construction -- Existing Space	47,000.00
Mechanical Engineering and Plumbing	39,000.00
Furniture and Fixtures -- New Space	103,156.00
Furniture and Fixtures -- Existing Space	31,400.00
General and Administration	11,940.00
Contingency	6,600.00
Total Expenses	**239,096.00**

Revenues

Predominantly Black Institution Grant	34,000.00
Remaining SPSBA Proceeds	82,049.00
Use of 2011-12 Capital funds	123,047.00
Total Revenues	**239,096.00**

Staff requested that the Committee recommend approval of the budget to complete the West Philadelphia Regional Center project to the full Board.

Action: Ms. Hernandez Velez moved and Mr. Wetzel seconded the motion that the Committee recommend to the full Board approval of the $239,096 budget for renovations to the existing classroom building and outfitting costs for the new and renovated West Regional Center spaces. The motion passed unanimously.

(4) Update on Construction Projects (Information Item):

Mr. Bixby provided a brief update on the construction projects since the last meeting of the Committee on the Main Campus Construction Projects.

With respect to the West Regional Center, Mr. Bixby noted that the break-through between the leased space and the College's existing facility had been accomplished, and that the newly-leased space should be ready for limited use as of the end of October. Programmatically, all of the new space in the Center is scheduled for full use in spring, but limited use will be possible in mid-fall. The limited renovations and outfitting required in the existing Regional Center space will be completed over the next several months in time for a project completion by the end of the calendar year.

Mr. Bixby noted that the hurricane and recent major rainstorms provided a key opportunity to test the integrity of the College's new stormwater management systems at the Northeast Regional Center, and that they have performed fully to expectations. All of the stormwater was kept out of the Perkasie creek wetlands area, and there was absolutely no puddling or flooding conditions at any place on the Northeast Regional Center property. The repaired windows in the existing building have eliminated long-standing problems with leaks in that building; and all of the construction-related leaks that were initially occurring in the Northeast Regional Center associated with HVAC ductwork and other issues have now been fully resolved. The Northeast project is moving into the final phase of LEED commissioning, and, barring any unforeseen disallowances, is expected to achieve a Gold-level certification.

At the Main Campus, the Pavilion Building opened for use as of September, 2011. Mr. Bixby noted that he is working with the 20 contractors who worked on the project to address a long list of punch-list items which will take some time to resolve. Landscape planning for both sides of 17^{th} Street have begun, and the goal is to have most of the landscaping in place by summer 2012. The process of LEED commissioning for the Pavilion Building has begun, and Gold-level LEED certification is expected.

With respect to the Bonnell Building expansion, the caissons have been installed, and the construction of the expanded ground floor addition will begin shortly. Renovations to the ground floor of the Mint Building will be fully accomplished by the end of the calendar year. Phases of the ground floor of the Bonnell Building renovations will be completed over the next 12 months. New labs and offices scheduled for construction in the West Building will also be completed over the next 12 months.

Mr. White requested that at the next meeting staff provide an update on minority, women and disabled business owner participation in the construction projects.

(5) Next Meeting Date

The next regularly scheduled meeting of the Committee will occur on Wednesday, October 19, 2011 at 9:00 A.M.

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Attachments
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ATTACHMENT A

COMMUNITY COLLEGE OF PHILADELPHIA
STATEMENT OF NET ASSETS FOR THE YEAR ENDED JUNE 30, 2011
KEY VARIANCES IN GENERAL LEDGER ACCOUNTS

Community College of Philadelphia
Statement of Net Assets for the Year Ended June 30, 2011
Key Variances in General Ledger Accounts

		6/30/2011		6/30/2010		Variance	
ASSETS:							
Cash and cash Equivalents	$	13,671,678	$	11,405,293	$	2,266,385	
Short Term Investments		9,116,339		28,931,902		(19,815,563)	**Transfer of $10 million to the College's long-term assets (TIAA-CREF).**
Sub-Total	$	22,788,017	$	40,337,195	$	(17,549,178)	**The College's $5.8 million purchase of 430-440 N. 15th Street. Increase in net pay due to June 30 pay date.**
Long Term Investments		15,080,777		4,947,043		10,133,734	**Transfer of $10 million to TIAA-CREF from short-term investments. Longer-term investment of some of the College's "Core Cash"**
Capital Assets		166,988,454		134,080,245		32,908,209	**Northeast Regional Center construction completion. Main Campus construction in progress increase.**
Accounts Receivable							
Tuition and Fee Receivable	$	4,314,942	$	3,415,391	$	899,551	**Company billing receivable increased. (HUP & the School District) Financial aid disbursements for spring 2011.**
Grants Receivable		135,275		468,496		(333,221)	**Decrease in grants receivable. 18 grants in 2010 versus 9 in 2011.**
Other Receivables		1,705,870		1,803,209		(97,339)	
Receivable from Foundation		157,978		114,393		43,585	
Sub-Total		6,314,065		5,801,489		512,576	
Allowance for Doubtful Accounts		(1,826,279)		(1,415,927)		(410,352)	
Total	**$**	**4,487,786**	**$**	**4,385,562**	**$**	**102,224**	
Receivable from Government Agencies							
State Grants and Special Projects	$	348,232	$	458,554	$	(110,322)	**FICA tax reimbursement and Keys Grant decrease.**
PHEAA Grants		1,441		1,261		180	
School District of Philadelphia		678,295		-		678,295	**Receivable from the School District (Gateway to College). Reimbursed in July 2011.**
Federal Financial Aid		33,491		426,292		(392,801)	**Decrease in receivable from financial aid programs. (Pell, SEOG, Direct Loan, and Work Study)**
Federal Grants and Special Projects		969,932		1,440,392		(470,460)	**College receipt of the EDA Grant proceeds.**
Total	**$**	**2,031,391**	**$**	**2,326,499**	**$**	**(295,108)**	

Community College of Philadelphia
Statement of Net Assets for the Year Ended June 30, 2011
Key Variances in General Ledger Accounts

	6/30/2011	6/30/2010	Variance	
LIABILITIES:				
Accounts Payable & Accrued Liabilities				
Vendors and Others	$ 6,809,869	$ 8,580,011	$ (1,770,142)	**Accounts payable accruals decreased. Payroll withholding accruals decreased. Outstanding Bond Trustee payments decreased reducing the accrual at June 30.**
Accrued Salaries	3,044,490	4,871,973	(1,827,483)	**Payroll accrual decrease from prior year. More payroll was expensed in 2011 which was due to a June 30th pay date.**
Accrued Benefits	1,950,202	1,830,662	119,540	**Increased benefit expense for academic year faculty.**
Compensated Absences	3,245,381	3,142,391	102,990	**Value of accrued vacation time.**
Retirement Incentive Payments	643,994	1,194,248	(550,254)	**Fewer College retirees due incentive payments.**
Payroll Withholding Taxes	-	(142,440)	142,440	**Payroll taxes paid on the June 30th pay date.**
Accrued Interest Expense	404,207	444,805	(40,598)	**Debt service interest expense.**
Total	**$ 16,098,143**	**$ 19,921,650**	**$ (3,823,507)**	
Payable to Government Agencies				
Commonwealth of Pennsylvania (Due to the State)	$ 80,891	$ 1,260,971	$ (1,180,080)	**State forgiveness of 2003-04 ($640,724) and 2004-05 ($1: Repayments of prior year audits.**
State Grants and Special Projects	-	12,775	(12,775)	
PHEAA Grants	731,722	727,185	4,537	
Perkins Loans	29,675	32,856	(3,181)	
City of Philadelphia	-	195,368	(195,368)	**Parking profits reserved for garage improvements.**
Federal Perkins Loans	267,075	295,704	(28,629)	
Federal Financial Aid	2,167	173,517	(171,350)	**Decrease in Stafford Loans to be returned.**
Total	**$ 1,111,530**	**$ 2,698,376**	**$ (1,586,846)**	
Capital Lease Obligation	5,679,277	5,974,640	(295,363)	
Long Term Debt	97,023,020	104,550,000	(7,526,980)	
Other Post-Employment Benefits GASB 45	22,614,325	16,575,690	6,038,635	**Actuarial calculation completed every 2 years. Post-Retirement benefit expense for 2011.**

Community College of Philadelphia
Statement of Net Assets for the Year Ended June 30, 2011
Key Variances in General Ledger Accounts

		6/30/2011		6/30/2010		Variance	
Fund Balances							
Unrestricted	$	7,609,166	$	12,212,485	$	(4,603,319)	Decrease reflects impacts of GASB 45 expense and surplus in the 2010-11 operating budget.
Quasi Endowment		1,743,728		2,089,754		(346,026)	
						(154,500)	Board approved transfer.
						(191,526)	Expenditures greater than Student Activity revenue for the year.
						(346,026)	
Plant Fund:							
Net Invested in Capital Assets		80,136,789		69,277,871		10,858,918	Increase due to the $5.8 million purchase of 430-440 N. 15th Street. Net effect of additional assets from Northeast Regional Center. Increased construction in progress from the Main Campus construction. Increase in capital leases.
Restricted Net Assets		730,624		510,809		219,815	Increase due to transfer of City share of garage profits to Plant Fund for garage renovations. Increase from 2008 & 2006 Bond interest earned. (Previously netted against interest expense in construction in progress.) Note: Restricted Net Assets also includes remaining proceeds of 1809 Spring Garden Street, remaining proceeds from the 2007 refinancing of the 1998 and 2001 Bonds, and accumulated interest earned on Bond proceeds.
Unrestricted		(4,317,168)		286,211		(4,603,379)	Use of College resources to purchase 430-440 N. 15th Street.
		76,550,245		70,074,891		6,475,354	
Total Net Assets	$	85,903,139	$	84,377,130	$	1,526,009	Net change in assets for the fiscal year (includes GASB 45 expense accrual).