PRESENTED TO THE BOARD OF GOVERNORS
DATE: July 8-9, 2013

SUBJECT: Appointment of a Special Trustee for San Francisco Community College District

BACKGROUND: On July 3, 2013 City College of San Francisco (CCSF) was notified by the Accrediting Commission for Community and Junior Colleges (ACCJC) that CCSF’s accredited status was being terminated. Because accredited status is a requirement for receipt of state apportionment funds, loss of accreditation would have a devastating fiscal impact on the finances of the San Francisco Community College District. It would also create a tremendous hardship for current and prospective students of one of the largest community colleges in the United States. California state law provides for the intervention of the Board of Governors and the Chancellor’s Office to assist troubled community college districts. In the most serious circumstances, the Board of Governors is authorized to appoint a special trustee to assume management and control of the district.

RECOMMENDED ACTION: It is recommended that the Board of Governors adopt Resolution 2013-04 authorizing the appointment of a special trustee for San Francisco Community College District (SFCCD) with the authority to assume management and control of the District.
ANALYSIS: ACCJC reviews community colleges in the western region on a six year cycle. CCSF had its most recent comprehensive review in the spring of 2012. (CCSF is the college operated by SFCCD and the terms CCSF and SFCCD are used interchangeably here.) Following that review, ACCJC placed CCSF on "show cause", the most severe sanction short of termination, due to very serious deficiencies across a broad range of areas. ACCJC, in its July 2, 2012 action letter, found that CCSF had not addressed eight deficiencies that had been cited in ACCJC’s 2006 review. ACCJC found major problems in the areas of ongoing assessment, integrated planning, financing/ budgeting and administrative leadership. ACCJC found that CCSF was out of compliance with four of the basic eligibility requirements and all four of the standards for accreditation. CCSF was directed to submit a “Show Cause Report” to ACCJC in March 2013 demonstrating that CCSF has addressed all recommendations and ACCJC concerns expressed in the July 2, 2012 action letter. ACCJC would then consider the Show Cause Report during its June 2013 meeting.

In addition to concerns raised by the “show cause” action, the State Chancellor’s Office employed the services of the Fiscal Crisis Management and Assistance Team (FCMAT) to review SFCCD’s fiscal condition. FCMAT conducted two detailed investigations of SFCCD’s financial status and management systems. These reports found severe problems in multiple areas. FCMAT’s September 18, 2012 report included over fifty recommendations in the following areas: fiscal health; multiyear financial projection; staffing and operational costs; enrollment management; administrative structure; and barriers to fiscal insolvency. The complete FCMAT report dated September 18, 2012 is incorporated by reference. The following is a summary of FCMAT’s findings followed by a summary of CCSF actions taken in response.

2012 FCMAT Report

Fiscal Health Analysis
City College of San Francisco (CCSF) has not developed a plan to fund significant liabilities and obligations such as retiree health benefits, adequate reserves, and workers’ compensation costs. Further, it has been subsidizing categorical programs with unrestricted general fund monies regardless of the effect on the general fund, and has provided salary increases and generous benefits with no discernible means to pay for them. The college has also used temporary one-time measures to mitigate its operating deficits, thus deferring difficult decisions to the future.

Multiyear Financial Projection
CCSF’s 2012-13 tentative budget does not increase the fund balance. Although the budget recognizes the possibility of a small state funding deficit of 0.7%, in today’s economic climate it is likely that the deficit could be higher, which will further reduce the fund balance. CCSF’s minimal ending fund balance leaves no margin for error or unexpected changes to the budget; either could result in fiscal insolvency. Even with the passage of the governor’s tax measure, CCSF projects a $13 million
shortfall in fiscal year 2013-14. To maintain financial solvency, reductions for 2013-14 and beyond must be ongoing rather than temporary.

**Staffing and Operational Costs**

CCSF has employed twice as many full-time faculty per 1,000 full-time equivalent students (FTES) and incurred expenses that are $17 to $18 million higher than comparison districts, while at the same time having a level of classroom productivity (class size) that is less than that of most of the comparison districts. CCSF also employs more classified staff at higher average salaries than the comparison districts.

CCSF’s capital outlay budgets will need to be restored as bond funds dwindle. Retiree health benefits payments will increase from an estimated $6.9 million in fiscal year 2011-12 to $13.0 million annually by 2020-21. Steps added to the classified salary schedule during negotiations will also add significant costs over time. **The magnitude of its employee contract obligations makes it difficult for CCSF to continue as a going concern (an organization that is fiscally healthy and able to meet its financial obligations) without change.** (emphasis added) CCSF’s expenditure per full-time equivalent student (FTES) exceeded its state funding (also known as state apportionment revenues) for fiscal year 2011-12 by $637 per noncredit instruction FTES and by $859 per credit instruction FTES. Thus these amounts had to be provided from other funding sources.

**Enrollment Management**

CCSF shows little evidence of an effective enrollment management plan. It lacks sufficient data provided in a timely and consistent reporting format to make important enrollment management decisions. Serving students when resources are reduced requires maximizing the use and effect of all available resources, but this is not possible without an effective enrollment management plan.

CCSF’s enrollment management has focused on student recruitment and marketing, student engagement and connection, technology (distance education), counseling and support. Enrollment management must also focus on enrollment goals for campuses and sites, programs and disciplines; the deployment of resources to achieve those goals; and measurement of progress. Enrollment management will be an important tool as CCSF plans course schedules, seeks to control direct costs, and measures progress toward FTES goals. Because revenue is largely driven by service level (FTES), it is imperative that CCSF manage this aspect of its operations effectively.

**Administrative Structure**

The use of some release time is normal in the community college system; however, the magnitude and types of release time assignments at CCSF are cause for concern. CCSF
allows an inordinate amount of release time, which is expensive because of CCSF’s high salary and benefits for the part-time employees who replace full-time employees when they are on release time. A significant part of this release time is for department chairs; other instructional and noninstructional release time makes up the balance. The structure and responsibilities of department chairs at CCSF differ significantly from what is typical at most California community colleges. Specifically, the department chairs at CCSF operate under a separate collective bargaining agreement and have responsibility for decisions about program and course offerings as well as control over release time assignments.

**Barriers to Fiscal Solvency**

Administrative stability is needed at CCSF. Four of its five vice chancellor positions are interim; the vice chancellor for finance and administration is the only administrative position with history in the district. The chancellor is also an interim assignment.

Interviews revealed that decisions that have serious financial implications are often made but that no one position is accountable for those decisions. Ultimately the governing board and the chancellor must provide leadership and serve as the final authority for important decisions. Fixing the immediate budget problem is imperative, but both the immediate remedy and sustained change depend on recognizing and addressing factors that contribute to poor decisions and a lack of accountability.

FCMAT provided a total of 53 recommendations (some included subparts) to CCSF. In a January 31, 2013 document CCSF provided a chart listing each of the recommendations, action taken to date and remaining action. For the vast majority of the recommendations, substantial remaining action needed to be taken to meet the recommendation. Many of the most significant recommendations were being addressed through labor negotiations. Although there has been some progress, labor negotiations are still ongoing and there is no indication that the critical issues are likely to be addressed in the near future. Other responses indicated that plans are in various stages of development but have not been implemented. In other cases, CCSF responded that analysis needs to occur before actions can be considered. Taken as a whole, the major challenges identified by FCMAT remained unresolved.

Subsequently, FCMAT, under contract with the State Chancellor’s Office, conducted a second evaluation, this time focused on internal systems. The complete report will be released later in July, but a summary was provided to the SFCCD Board of Trustees on June 26, 2013. Again, the results present a district in serious disarray. SFCCD lacks effective controls, for example, to ensure that only employees with a need to know have access to sensitive financial and personnel data. The computer payroll screen is thought to be accessible to 125 employees. There are inadequate mechanisms for tracking of vacation and sick time benefits. Payroll and human resources departments are without any dedicated staff to position control which has resulted in each department questioning who should perform specific functions. Deferred maintenance needs are not adequately managed and much of the campus is in disrepair. Policies and practices related to student enrollment fee collection are insufficient to ensure students pay required fees. This is
further evidence that SFCCD is seriously dysfunctional both in terms of large-scale fiscal planning and day-to-day operations.

**ACCJC Termination of Accreditation**

On July 3, 2013 CCSF received notification from ACCJC that ACCJC had voted to terminate CCSF’s accreditation effective July 31, 2014. The action was based on ACCJC’s conclusion that CCSF had failed to show cause why its accreditation should not be withdrawn. CCSF was unable to demonstrate that it had corrected the deficiencies noted by the ACCJC in its 2012 show cause action letter. The Commission concluded that CCSF is still significantly out of compliance with four eligibility requirements and elements of all four accreditation standards. Of the fourteen recommendations listed in ACCJC’s July, 2012 action letter, CCSF has fully addressed only two and significantly addressed one more leaving eleven recommendation unmet. ACCJC’s policy on termination provides that if an appeal is filed, the college’s show cause status continues pending completion of the appeal process.

Termination is ACCJC’s most serious sanction, an action that has been taken only once before against a California community college, Compton College. And in the case of Compton College, when accreditation was terminated, the El Camino Community College District was already in the process of assuming management of Compton College’s instructional programs. Because there is no likelihood of another district stepping in, this situation is especially grave.

**Appointment of a Special Trustee**

Education Code section 84040 authorizes the Board of Governors to take actions to “encourage sound management practices among community college districts for the most efficient and effective use of public funds.” Section 84040 (c)(3) provides: “The Board of Governors shall develop appropriate procedures and actions for districts that fail to achieve fiscal stability or that fail to comply with the board of governors’ recommendations. The procedures and remedies may include the appointment of a special trustee to manage the district.” (emphasis added added)

The authority of the Board of Governors is specified in greater detail in California Code of Regulations title 5 (title 5) section 58312. It provides:

If the Chancellor determines that the district's plans prepared and adopted pursuant to section 58310 are inadequate to solve the financial problems or to implement the principles of sound fiscal management, or if the district substantially fails to implement the plans, or if a college operated by the district is in jeopardy of losing its accreditation which would create severe fiscal problems, the Chancellor shall have the authority to take any of the following actions. The Chancellor should first utilize measures which minimize interference with normal district
operation, unless he or she determines that acting otherwise is necessary to prevent the worsening of fiscal conditions at the district. (underlined language added by amendment)

The regulation then provides a series of options available to the Board of Governors to assist such a district. Section 58312(a) authorizes the Chancellor conduct a comprehensive management review of the district and its educational programs and an audit of the financial condition of the district or to have an outside agency perform this activity. The FCMAT report, described above, was such a management review. As explained above, CCSF has failed to implement most of the recommendation from the FCMAT Report. Section 58312(d) provides for the appointment of a special trustee at district expense to address the district’s fiscal problems. On October 25, 2012, the Chancellor appointed Robert Agrella, a retired community college chief executive officer, to serve as trustee at CCSF. Serving primarily as an advisor to the SFCCD Board of Trustee, Dr. Agrella has attempted to help CCSF meet the FCMAT recommendations and to prepare the Show Cause Report.

Section 58312(e) provides:

If the Chancellor determines that further efforts to have the district modify or implement the plans would be futile, the Chancellor may, with the approval of the Board of Governors, also authorize a special trustee appointed pursuant to subdivision (d) to assume management and control of the district, including assumption of the legal rights, powers and duties of the governing board of the district to the full extent deemed necessary by the Board of Governors in order to achieve fiscal stability or solvency, to implement the principles of sound fiscal management set forth in section 58311 or to preserve the accredited status of a college or recover accredited status if it has been terminated. The Chancellor may authorize the special trustee to exercise such powers as are approved by the Board of Governors for a period of no more than one year, unless the Board of Governors approves one or more one-year extensions. The exercise by the special trustee of such powers shall be subject to all legal requirements applicable to the district. The governing board of the district may not exercise any authority so assumed. (underlined language added by amendment)

Based on the facts stated above, the Board of Governors is authorized to appoint a special trustee to assume management and control of the district. The Chancellor has determined that efforts currently under way to have SFCCD modify or implement existing plans would be futile. It is clear that SFCCD is unable to solve its financial problems, lacks the ability to implement the principles of sound fiscal management and is in immediate jeopardy of losing its accreditation. The July 3, 2013 ACCJC action letter says “CCSF “has still not addressed, and appears to lack the capacity to address, the many financial management deficiencies identified by the 2012 Evaluation Team Report.”
Loss of accreditation is guaranteed to have a devastating fiscal and operational effect on any California community college. Pursuant to title 5 section 51016, a district operating a college that is not accredited is not entitled to receive state aid, including general apportionment for that college. Therefore, upon losing apportionment, a district is likely to become insolvent almost immediately. In this case, ACCJC will not actually terminate apportionment until the end of an appeal process. However, the announced loss of accreditation is itself a fiscally hazardous condition. Students fearing potential loss of accreditation are less likely to enroll which would have an immediate impact on revenues received by the district. Unless decisive intervention occurs and a clear plan to restore accreditation is effectively presented to the community, SFCCD will be in extreme fiscal peril.

The existing SFCCD Board of Trustees, despite its best efforts, has been unable to bring about the major changes needed to set CCSF on a path to fiscal stability and sound accreditation status. The appointment of a special trustee with full management powers is the last, best hope for CCSF.