Jackson College
Board of Trustees

Monitoring Report: EL – 03
Planning

[FULL COMPLIANCE]

Note: Board Policy is indicated in bold typeface throughout the report.

I present this monitoring report to the Jackson College Board of Trustees which addresses the Board's Executive Limitations Policy: Planning – EL-03. I certify that the information contained herein is true and represents compliance, within a reasonable interpretation of the established policy.

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Please note that all of my interpretations of the policy remain unchanged from the previous report, unless otherwise noted.

06.10.24

Daniel J. Phelan, Ph.D. Date
President and CEO

POLICY STATEMENT:

The CEO shall not permit planning that allocates resources in a way that risks fiscal jeopardy or that is not aligned with achievement of the Board's ENDS. Further, without limiting the scope of the above statement by the following list, the CEO shall not:

1. **Permit budget planning or College operations without a documented, multi-year strategy that can be expected to achieve a reasonable interpretation of the ENDS.**

   INTERPETATION:

   I have interpreted that compliance with this policy statement will be demonstrated when the proposed new budget aligns with the current budget year, both appearing in the three-year pro-forma financial plan consisting of revenues and expenses presented each year to the Board.

   I have further interpreted that compliance with this policy statement will be demonstrated when the CEO's Strategic Agenda, an evergreen planning document, consisting of 18 months of goals, strategies, and tactics, demonstrates a clear alignment from the ENDS policies, through to operational priorities assigned to the Leadership Council, which, in sum, is responsible for the bulk operational activity of the College.

This interpretation is reasonable because the use of a strategic planning document and three-year proforma budget data are traditional tools used in the achievement of Board policy directives in the higher education industry.

<u>EVIDENCE:</u>

The CFO confirmed on 05.19.24 that the Strategic Agenda is listed on the College's Intranet. Additionally, the CFO confirmed that a 3-year pro-forma is included in the FY '25 budget book.

1.1 Permit financial planning without a projected multi-year (no less than five years) facilities master plan.

<u>INTERPETATION:</u>

I have interpreted that compliance with this policy statement will be demonstrated when the College's five-year facilities master plan is included in the Budget preparation documents used as a basis for determining priorities in a current year, with the understanding of the potential for changing economic conditions, as well as available funding.

This interpretation is reasonable because the five-year master plan is folded into the Board approved budget and is codified in distributed form for Board inspection.

<u>EVIDENCE:</u>

CFO confirmed on 05.19.24 that the five-year master plan was presented at the Board of Trustees meeting on 05.13.24, by the Chief Facilities and Logistics Officer.

2. Permit financial planning that omits credible projection of revenues and expenses, separation of capital expenditures and operational expenses, cash flow projections, prior year comparisons, and disclosure of planning assumptions.

<u>INTERPETATION:</u>

I have interpreted that compliance with this policy statement will be demonstrated when, as noted in 2.1 (separation of capital expenditures), as well as the following:

a) Projected revenues from tuition and fees are based on a regression analysis of historical enrollment, adjusted against current events, and the CEO's initiatives.

b) Housing revenues are derived from prior year application analysis, adjusted following consideration of actual and/or potential impactful, societal events.

c) Property tax revenue is derived from property valuations, less the Headlee rollback effects on our millage rate.

d) State Appropriations revenue assumptions are derived from information provided by my analysis following a review of state projections and consideration of a likely state budget outcome, given that our College budget needs to be approved by the Board fully three months before the State budget is required to be completed.

e) Contract training revenue, performing arts activity, miscellaneous revenue, and Transfers Revenues are derived from historical activity.

f) Hospitality Services revenue is derived from housing occupancy assumptions, based on the sale of a student residence mandatory meal plan, and catering services.

g) Wages, Retirement and Benefit expense are derived from the current staffing roster, adjusted for labor agreement requirements, changes in State and Federal requirements, as well as the addition of new staff to the budget.

h) Services – Staffing Agency, Services, Materials, Rent, Utilities, Insurance and Other operating costs are derived from historical trends, adjusted for current revenue assumptions.

i) Transfers-Debt Services is derived from our debt repayment schedule for the required payments on outstanding obligations that year.

j) Capital Equipment & Transfers are derived by the residual income over expenses after all other expenses are planned.

k) The budget book includes five-year facilities plan for capital expenditures.

l) Cashflow projections are prepared and reviewed with the Leadership Council, while ensuring the satisfaction of the Board requirements of two-month's operating on hand.

m) The budget book includes major planning assumptions.

This interpretation is reasonable because all budget items are derived in a manner which is comparable to budget planning processes used in other community colleges of comparable size.

<u>EVIDENCE:</u>

The CFO confirmed on 05.19.24 that all aspects described in 2a) through 2m) were factored into and represented in the FY '25 budget proposal presented to the Board for consideration, as evidenced in the Regular Board Meeting budget documents of 05.13.24, as well as on the College's transparency webpage. The five-year facilities master plan was presented separately from the budget book by the Chief Facilities and Logistics Officer.

2.1 Omit in the annual operating budget adequate provision for plant and facilities maintenance, electronic and institutional equipment and program and course development, staff development and institutional research.

2.1.1 Unless otherwise approved by the Board, provide less than the amount required to address critical deferred maintenance.

2.1.1.1 Less than 4.5% of the total operating budget allocated for plant and facilities maintenance.

<u>INTERPETATION:</u>

I have interpreted that compliance with this policy statement will be demonstrated when the total amount of plant transfers budgeted, debt, and/or transfers at year end, are at least 4.5% of the budgeted operating revenues.

This interpretation is reasonable because the Board of Trustees has opportunity to review and approve the budget at the beginning of the year, as well as any year-end budget adjustments, by the end of the fiscal year, for evidence of compliance with this numerical threshold.

<u>EVIDENCE:</u>
The CFO confirmed on 05.19.24 that 4.2% of the operating budget will support transfers to Plant, and another 6.37% of the operating budget will support Debt Service.

2.1.1.2 Less than 3.5% allocated for technology and institutional equipment.

<u>INTERPETATION:</u>

Technology and institutional equipment are part of the capital budget. Compliance will be demonstrated when the total for technology and institutional equipment is included in the 3.5% of the operating budget planned for capital equipment, year-end transfers, and debt.

This interpretation is reasonable because the Board of Trustees has opportunity to review and approve the budget at the beginning of the year, as well as any year-end budget adjustments, by the end of the fiscal year, for evidence of compliance with this numerical threshold.

EVIDENCE:

The CFO confirmed on 05.19.24 that initially, 0.98% of the operating budget will support capital equipment. The balance needed to achieve 3.5% occurs at the conclusion of the year through institutional transfers. It is important to note that the College receives Perkins grant funding which supports an additional $300K of annual capital equipment purchases.

3. **Permit financial planning that does not provide the amount of operating funds determined annually by the Board for its direct use during the year to ensure Board advancement and competent governance of the College, such as costs of fiscal audit, Board development, Board and committee meetings, Board legal fees, and Ownership linkage.**

INTERPETATION:

I have interpreted that compliance with this policy statement will be demonstrated when the budget account for the Board's direct use is identified as a separate department within the overall College.

This interpretation is reasonable because the Board has opportunity to review and approve the adoption of the annual operating budget.

EVIDENCE:

The CFO confirmed on 05.19.24 that the Board of Trustees has a dedicated budget, within the overall College budget, to support such costs as professional development, meeting expense, audit, and legal fees.

4. **Allow an annual operating budget in which more funds are to be dispersed than are conservatively projected to be received.**

INTERPETATION:

I have interpreted that compliance with this policy statement will be demonstrated when the projected year-end income over (under) expenses is zero or greater.

This interpretation is reasonable because the Board of Trustees receives and regularly has opportunity to review monthly financial reports on the College's financial activity, as well as audited financial reports for evidence of compliance with this policy item.

EVIDENCE:

The CFO confirmed on 05.19.24 that a balanced budget is provided to the Board, as evidenced in the Regular Board meeting budget documents of 05.13.24, as well as on the College's transparency webpage.

5. **Permit planning that endangers the fiscal soundness of future years or ignores the building of organizational capability sufficient to achieve ENDS in future years.**

INTERPRETATION:

I have interpreted that compliance with this policy statement will be demonstrated when budget plans for the board include future years projections that are fiscally viable, as well as the following.

a) Labor contracts do not incur long-term future financial commitments that are not provided for in our three-year pro-forma; and
b) Borrowing (i.e., debt service) does not exceed 10% of annual operating expenses.

This interpretation is reasonable because the Board receives annual budget planning documents which include elements of fiscal soundness, (which is consistent with the historical threshold previously used by the Board), debt services, and projected outcomes of negotiated contracts in those years when union contracts are expired.

EVIDENCE:

a) CFO confirmed on 05.19.24 that a review of the current three-year pro-forma includes the cost increase associated with the current labor agreements.
b) CFO confirmed on 05.19.24 that a review of the three-year pro-forma confirms the cost of debt service is 6.43% in FY '24, 6.34% in FY '25, 6.14% in FY '26, 4.29% in FY'27, and 4.15% in FY'28 of each year's projected expenses.

5.1 **Operate without succession plans to facilitate smooth operations during key personnel transitions and ensure competent operation of the organization over the long-term.**

INTERPETATION:

I have interpreted that compliance with this policy statement will be demonstrated when

a) Each Leadership Council Member has identified, to the College CEO, an interim successor.
b) Each Council Member Successor is provided current operational information and has the opportunity to fill the responsibilities of the position from time to time.
c) Each Council Member Successor is aware of their responsibility to the

operations of the College and the Leadership council.

This interpretation is reasonable because it monitors succession planning at the appropriate levels of the organization and is a consistent practice among other community colleges.

EVIDENCE:

The CFO confirmed that during the FY ‘23 Q3 Strategic Session on 03.02.23 succession plans were shared by each Leadership Council member. This work is evergreen and will continue as the Leadership Council updates its progress on the Strategic Agenda each quarter, with the next review by the Leadership Council on 05.22.24.

5.2 Permit the College to be without sufficient organizational capacity and current information about CEO and Board issues and processes for the competent operation of the organization to continue in the event of sudden loss of CEO services.

INTERPETATION:

I have interpreted that compliance with this policy statement will be demonstrated when, (partially as noted in 5.2.1) as well as the following:

a) Minutes of the Leadership Council confirm that it regularly discusses current operations of the organization.

b) The Leadership Council understands how the organization is evaluated under Policy Governance and is involved in the development of Board Monitoring Reports.

c) Performance Management Interviews (PMIs) between the Leadership Council member and their direct reports reveal discussions of larger operations in the area under supervision, as well as discussion of leadership growth and a pathway for doing so.

The interpretation is reasonable because it covers the two areas critical to continuity of the CEO’s role; Operations of the College and support of the Board’s assessment of organization performance. Further, PMI meetings, with direct reports, are a requirement of all Leadership Council Members which assess competence and promotes continuous professional development.

EVIDENCE:

a) The CFO confirmed on 05.19.24 that the Leadership Council discusses operations of the organization especially during Strategic Planning and Agenda sessions.

b) The CFO confirmed on 05.19.24 that Leadership Council members are providing evidence in support of the monitoring reports.

c) CFO confirmed on 05.19.24 that PMIs continue to be an important and critical practice in the success of each employee, their supervisor, and the institution. The PMIs are required to be conducted quarterly for all College employees.

5.2.1 Prepare no fewer than two College executive staff to assume operation of the organization for a Board determined interim period.

INTERPETATION:

I have interpreted that compliance with this policy statement will be demonstrated when (assuming that "*the assumption of the operation of the organization*" language includes the same authority and responsibility as the CEO):

- There is a documented succession plan with two named Leadership Council members that delineate the respected authorities and responsibilities of the CEO, for which each person is accountable during a temporary absence of the CEO of less than 6 months.
- When the two named successors, as determined by the CEO, are shared, in order, with the Board of Trustees.
- When the two named successors confirm their knowledge of their role as successor, and their responsibilities and accountabilities in the event of an absence.
- When the two named successors are required to attend monthly Board Meetings, Planning Sessions, and receive appropriate Board communications.

The interpretation is reasonable because it supports the Board's ability to apply policy BMD-5 President & CEO Succession.

EVIDENCE:

The CFO confirmed that during the FY '23 Q3 Strategic Session on 03.02.23 succession plans were shared by each Leadership Council member. This work is evergreen and will continue as the Leadership Council updates its progress on the Strategic Agenda. The Leadership Council is reviewing succession planning on 05.22.24.

The Jackson College Board of Trustees assessed this monitoring report and found that it demonstrated full compliance with a reasonable interpretation of the policy at the regular Jackson College Board meeting on June 10, 2024.