President's Report to the Board

December 2012

'Tis the month for season's greetings, presents, family time, and, unavoidably, stress. For some families, December is a month for which they have saved all year; for other families, it is a single month that disrupts even the best-planned budgets, leaving financial stress in its place for the year ahead.

For the College, December brings similar challenges as we contemplate the current state of our finances, and we articulate a plan for the fiscal year ahead. At your first meeting next month, you will hear a presentation about the College's fiscal year (FY) 2014 operating budget, which we hope you will approve at your second meeting. Therefore, I want to use this month's report to outline my priorities, as well as provide the framework behind some of the line items you may encounter as you review our budget. As we prepare the budget, our key goals include (1) a continued dedication to align our budgeting process with our annual goals and strategic plan, (2) prudent fiscal stewardship, and (3) our people.

I believe the top budget priority must be the heart of our institution: our people. We have aspirational mission and vision statements, and we are guided by sound core values. However, they are mere words without the people in our organization who dedicate their days, weeks, months, years, and decades to our students. With personnel-related expenses comprising 80 percent of our budget—a level comparable to other Maryland community colleges—developing a strategic approach to this issue is critical to our institution's fiscal health.

For the past several years, it has been our people who have borne the biggest brunt of the economic downturn and loss of public revenues. The College as a whole—campuses, departments, disciplines, programs—bended and adjusted to the challenging economic times. This reality required sacrifices at work and also at home. Our administrators, faculty, and staff accommodated up to eight pay-free days in FY11. While we thankfully avoided furlough days in the two fiscal years since, as you know all too well, our faculty and staff received no compensation adjustments added to base salaries for three straight years. For our administrators, it has been four years. We granted one-time, lump-sum payments to ease some of the burden. Our students also felt the financial strain, with the cost of tuition rising as a larger portion of our overall budget to help offset the decrease from other funding sources. We must find reliable ways to allow our employees and students to devote their attention to the critical work they do on a daily basis, as opposed to concerns about how they will make ends meet at home.

Solving our budget challenges without asking employees to continue to make sacrifices is the right thing to do, and it is the essential course of action for our College. If we are to truly actualize our destiny, we must be willing to invest in talent management, an all-important resource. Locally competitive compensation packages, including annual adjustments, are essential if we are to become a Destination Employer. The ability to recruit and retain the most relevant community college administration, faculty, and staff will depend upon it.

Our efforts to restore fair and fiscally-prudent salary adjustments must be paired with deliberate methodologies to recruit the best fit for our mission, as well as those individuals who are dedicated to remaining at our College. With this in mind, we will soon embark on creating a Common Employee Experience, inspired by our parallel effort to establish a Common Student Experience. The Common Employee Experience emphasizes the complete integration of the employee into the College—the *entire* College. The Common Employee Experience will identify what employees want from us, and what they can expect from us, beyond compensation packages and benefits. We must adapt to the needs of the 21st-century employee, including formalizing flexible work and telework opportunities, an action we took earlier this year. We must provide a safe work environment with not only modern facilities, but also technology to help our administrators, faculty, and staff perform their work more efficiently. We already give our employees professional development opportunities, and this year, we will recommend increasing the amount of money available for employees to attend external events and conferences. Additionally, beginning in FY14, staff can receive a benefit that used to be exclusive to our full-time faculty, allowing raises once they earn a new degree or credential.

These initiatives are a start, but we have more work to do. We must invest in a Common Employee Experience on the front end for our College and students to benefit in the years ahead. Implementing a Common Employee Experience will take time. It will take money. It will take dedication. We are in the process of organizing a committee that will define the common truths about what it means to belong to the Montgomery College community. A Common Employee Experience will help cement Montgomery College as a Destination Employer, an initiative specifically highlighted in *Montgomery College 2020*.

I want to prioritize people, but the question remains how to lay the groundwork in our FY14 budget to fund such a critical effort when there may be a gap in available resources. While the economy has stabilized and no serious decreases in projected public revenues are expected, we must continue to craft budgets that reflect the likely availability of additional public funding and the ability of our students to afford tuition. Montgomery County's fiscal plan, adopted by the Montgomery County Council, assumes funding for the College at the maintenance of effort level—the amount appropriated last year. Additionally, it is unlikely the governor will fully fund the Cade formula, and worries abound about the "fiscal cliff" and the potentially devastating impacts on the local economy if the federal government doesn't solve its own budget challenges. Thus, we must assume flat funding from the state for the moment. I would contend that this does not mean doing the status quo; rather this calls for innovative thinking about how we can reposition the College and maximize the use of existing resources to push forward with our critical strategic initiatives.

The Voluntary Early Retirement Program (VERP) is one effort that enables us to redirect resources to align with our goals and strategic plan. More than 100 employees will begin their retirement, some earlier than planned, during the course of the next two years. Many of these outgoing members of the College community had salaries and benefits falling in the very top of the budgeted range. While VERP is not an instant savings, the result is that we expect the College will save several million dollars annually after the two-year transition.

Our goal is to determine how many positions will be hired and it might not be the same number of employees as the number departing. That said, we cannot ask our remaining employees to take on an untenable workload. We must think strategically about *who* we hire, *how* we hire, *what* we pay new hires, and *when* and *if* we choose to hire.

As a result of our new classification study, we instituted a requirement that an incoming staff member be hired at a level no higher than the midpoint of range, except in rare and extenuating circumstances. However, even if we were to fill every single VERP vacancy at the midpoint, we would still expect to realize a significant cost savings. This, then, raises the question: how do we meet these lofty recruiting goals in the current economic climate? First, we remain committed to building on the salary and benefits packages that we offer to our employees. That, however, is not enough. As an institution, we also must grow and change the lens through which we view hiring decisions. For instance:

- We must realize that our traditional hiring checklist requiring a certain number of years of experience and a certain number of degrees may hinder us from reaching the students of today. We should not overlook exciting, outgoing PhD candidates whose state-of-the-art training and innovative research enable them to reach our students in new and effective ways.
- Perhaps a staff position would be best filled by an individual who has the minimum rather than the maximum requisite number of years of experience in that trade, or someone who has comparable experience in a parallel profession that could enhance the way the department operates.
- We must provide opportunities for credentialed individuals who do not fit into our traditional checklists, but may be the right people to move our College forward. Being truly relevant means seeking out administrators, faculty, and staff who can best serve the needs of our students, rather than those who fit into an outdated vision of hiring.

Being effective in any new budget strategy, including when it comes to hiring, will require us to have a One College mentality. We must look at our budget from an institutional viewpoint in order to determine if there are ways to effectively collaborate across campus lines, rather than duplicate and double the resources. We cannot compartmentalize our campuses, when working together would create an equal, if not better, experience for our students, at a cost savings.

It is with this in mind that we are performing a Cost to Educate analysis to determine the cost of each of our major academic programs, and to strategize how to most effectively expend resources. The model looks at each individual program, and assesses its revenue, expenses, and the difference between the two; in other words, it creates an income statement for each program. The analysis includes a look at whether the student contact hours within that discipline are increasing or decreasing, as well as the number of faculty and staff involved, and where they fit in the pay scale. In the past, we grouped the costs attached to faculty and staff salaries and benefits into a single pool, rather than place them within the appropriate program budgets. Under our new Cost to Educate model, all program costs, including salaries and benefits, will appear within each program's income statement. From that information, we can analyze the programs themselves. We can center our conversation on the data to help inform decisions about how we can be more cost effective and still meet the needs and interests of our students.

However, the Cost to Educate model is not the end point. It is the beginning. Data alone cannot drive our decision making. We must place this piece of the budget puzzle in the greater College context. Alignment with our mission and the strategic plan must be the root of the conversation. The mere fact that a program spends more than it generates does not mean we must retire it. Rather, we must rethink the way we deliver learning. Are some of these courses capable of using an online environment? Are some of these programs in need of a partnership? Can a collegewide approach facilitate the sharing of resources? Do the benefits provided by some programs, such as transfer opportunities or community enrichment, offset the loss? Are some in need of retirement?

Let me provide a few examples:

- We recently utilized the Cost to Educate model to analyze our Gateway to College partnership program with Montgomery County Public Schools (MCPS). The data indicated that the current model was not a sustainable one. So, we made the difficult decision to reallocate these dollars, while considering other ways to reach students who would have benefited from the Gateway program.

- We already can anticipate what the outcome of our Cost to Educate analysis will find about our nursing program. We know this curriculum is incredibly expensive, and one where the bottom line for the program will end up red. However, we have made a strategic decision as a College to supplement that program due its critical service to our students and our community.

- Meanwhile, there are other important subjects that we teach at the College that also are costly, and we must take a hard look at whether the College should expend more resources on these opportunities or if there are more cost-effective alternatives.

- The College also utilizes a similar Cost to Educate approach when analyzing how we can launch new programs that will benefit our students, while also helping us reduce costs down the road. For instance, we all know the staggering number of students who require developmental coursework when they first arrive on our campuses. We launched our new Achieving Collegiate Excellence and Success (ACES) partnership with MCPS and the Universities at Shady Grove in hopes of providing extra support to targeted students while they still are in high school, thereby saving College resources without impacting student success.

Currently, we are not in a position to make cost-benefit analyses of all of our programs because we simply have not had the information collected in an appropriate way. We are laying the necessary groundwork, and we are collecting and structuring the information that enables the conversation. This year, we put into place a new chart of accounts, which will produce our first Cost to Educate data at the end of FY13. From that point forward, we hope to use that data in our budget planning.

Reexamining our institutional norms—the way we always have done things—will be critical to our success. This goes beyond taking a One College approach to also embracing a multi-year strategic one. Our hard work on *Montgomery College 2020* indicates our mutual desire to align our strategic goals with our budgeting plans. This accountability must, and will, trickle down to all College personnel tasked with budgeting.

We have migrated our entire financial system into Banner—the software the College uses for financial accounting—to enhance a side-by-side comparison of anticipated budget and actual spending for every area of the College. We must hold our College leaders accountable for identifying funding for certain projects and explaining any disparity between the projection and the reality. We will be proactive in this regard: we will monitor all budgets throughout the year, and track how their current spending synchs with their projections. There will be accountability because this goes beyond a prudent budgeting strategy; this kind of alignment is required for the College to be a good steward of taxpayer resources.

As an institution, it becomes easy to make budget decisions without truly internalizing the impact. In our own personal lives, we are confronted daily by our budget decisions and cannot simply put off balancing our checkbooks. That does not always mean cutting back in every way, but rather being strategic about the ways to stretch a dollar without changing our quality of life. I hope we can embrace a similar mentality at the College so that the changes experienced by our people and our community are ones that position us for stronger years ahead.

I hope this report provides some of the context that will help you analyze our budget next month. I look forward to your feedback and hope that your own experiences as successful business and community leaders will help us make the tough decision in thoughtful and deliberate ways. Of course, I also wish you a very happy and stress-free holiday season!

Monthly Discussion Questions[1]

1. **Institutional needs.** What kind of change, if any, does our institution need?
2. **Context and competition.** Do we understand our institution's competitive position?

[1] Adopted from MacTaggart, Terrence J., *Leading Change: How Boards and Presidents Build Exceptional Academic Institutions,* AGB Press, 2011 (pp. 21–22).

3. **Consequences of no change.** What are the consequences if we do not engage in a change process?
4. **Leadership capacity.** As a board and as individual board members, are we able and willing to work with our president to bring about positive change?
5. **Change process and players.** Based on this discussion, what is the right role for the board to play at this time?